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IS WRONG

**The Upside Down World of
Alexandria Ocasio-Cortez**



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Introduction

How This Book Works

Each chapter of this book treats an issue that has been central to the message of Alexandria Ocasio-Cortez. Some mention her by name; others do not. But the argument of each chapter is intended to refute one of her major claims.

Chapter 1 responds to the claim that Sweden proves that an attractive alternative to capitalism exists, and that we should aspire to model ourselves after the Scandinavian countries.

Chapters 2 and 3 address the view that what American health care needs is more government spending and intervention.

Chapters 4 and 5 beat back the Green New Deal.

Chapter 6 is a response to the Ocasio-Cortez proposal for much higher marginal income tax rates on top earners. It responds to her claims – e.g., we’ve had these rates before without any problems! – and explains the economic destruction these rates would cause.

Chapter 7 deals with the claim, sometimes heard in progressive circles, that lowering tax rates on wealthy people actually has negative economic consequences. (It doesn’t, of course.)

Chapter 8 discusses “inequality,” a major Ocasio-Cortez theme.

Chapter 9 explains that the last thing we need is more funding for higher education, and that most people’s views of higher education are based more on superstition and inertia than on a sober examination of actual results.

Chapter 10 explains that if “affordable housing” is what we want, we’ll get it by pushing government out of the picture, rather than spending still more tax money.

Much of the material in this book is drawn from The Tom Woods Show, the Monday-through-Friday libertarian podcast I have hosted for (as of this printing) close to six years.

This is the kind of material my listeners get every day.

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Happy reading.

*Tom Woods
Harmony, Florida
May 2019*

Chapter 1

Does Sweden Prove Government Is Better Than Capitalism?

With Nima Sanandaji

Nima Sanandaji is the author of *Debunking Utopia: Exposing the Myth of Nordic Socialism*. This chapter is taken from episode 717 of the Tom Woods Show.

WOODS: Tell us about your background, because I think it's relevant to your story.

SANANDAJI: I'm a Kurdish Iranian, and I came with my family to Sweden as a child. And like many immigrants, when we came to Sweden we were trapped in welfare dependency. So although my father and mother had successful jobs in Iran, they became dependent on the welfare state in Sweden. And so we grew up in a marginalized, welfare-supported family. Later I got a PhD, and I've been working on public policy issues. I've written more than 100 public policy reports and around 20 books, mostly about the situation in Sweden, Nordics, and other parts of northern Europe. And I'm the president of the European Center for Entrepreneurship and Policy Reform.

WOODS: You have an interesting and unique, both outsider and insider kind of perspective on Sweden, and you bring that to bear in your study here.

Now the comic-book version of the Nordic economic system that we hear in the United States is that it's a socialist system, or at least one with an extremely heavy public sector, and it's had nothing but good results for everybody. So if you want income equality, social mobility, economic prosperity, and all kinds of public sector benefits, then you should adopt this model. At what point, as you were getting older and getting to understand your surroundings better, did you realize there was something wrong with that way of thinking about Sweden?

SANANDAJI: The reason I wrote *Debunking Utopia: Exposing the Myth of Nordic Socialism* is that the Nordic countries are often used as a main argument by the Left for why democratic socialism – a big term for “state” – should be introduced. Now, you ask when did I realize there were flaws in the system. I realized this as a child, because I was shocked by my experience of seeing people, immigrants, who were otherwise well educated, who'd had top jobs in their home countries, becoming dependent on welfare support. And I could see that the welfare state was creating social poverty. Instead of helping people, too much welfare was actually harming them.

And the funny thing is that the myth of Nordic socialism working doesn't exist in Nordic

countries themselves. In Nordic countries they don't believe socialism works. The Danish prime minister recently gave a speech at Harvard University, and he said: stop calling Denmark a socialist economy. We are a market economy. And they are. If you look at the index of economic freedom, Denmark has the same economic freedom score as the United States. What this means is they're dragged down by having high taxes and generous welfare systems, but in every other measure of economic freedom Denmark is much more of a capitalist country than the United States because they have much less government involvement in their economies.

And if you read my book *Debunking Utopia*, I explain that this is the Nordic success story. For much of their modern history they've had very free market-oriented economic policy. And perhaps the best example is the Great Depression, because while the United States really struggled with the Great Depression – you had the New Deal – the Nordic countries had laissez-faire economic freedom. They didn't have government involvement, and they actually were super successful in creating jobs and getting back on track after the depression. So the story of Nordic countries is very much about the success of economic freedom.

WOODS: Let's talk about those high taxes. You have a chapter in *Debunking Utopia* on taxes, and partly devoted to figuring out how it's possible for these governments to get away with the tax levels they've had. And you note that some of the taxes are concealed from the public, so that if you were to go to people in some of these countries and ask how they can tolerate paying X% of their income in taxes every year, they would be baffled that you would even say that, because their view is that they're paying about one-third of their income in taxes. But it's much higher. How is that the case?

SANANDAJI: This is a big, important question. Your listeners may be thinking, why are these guys talking about Nordic countries? Who cares? But this is very important. Why is it that the Left in America has not been able to introduce very high taxes while the Left in Denmark has been able to? Why is it that while Hillary Clinton, Bill Clinton, Barack Obama, and Bernie Sanders would like to see the same high taxes as in the Nordics in America, they're not succeeding in doing so? The most important reason is hidden taxation. The Social Democrats in Sweden, Denmark, Norway, Finland were not able to introduce high taxes until they started hiding the true tax burden.

Last year I did a very big survey in Sweden, where we asked people what the total tax was. You know, add up all the taxes on a normal person: how high is that tax? Many people think the total tax burden is below 30% – but the true total tax burden in Sweden is 52%, even on people with low and medium incomes. So much of the tax burden is hidden. And around the world, the countries that have high taxes are those that have successfully hidden them. The thing you should be very concerned about is that the American Left is trying to slowly hide the tax burden. And really, Obamacare is one of those thefts, because

Obamacare is a way of actually creating tax-funded public health care without calling it a tax.

WOODS: Early on in your book you give a couple of statistics related to life expectancy, and to me this reveals the slippery way the Left has tried to use these countries as a bludgeon with which to beat market economies. They'll say: these countries have longer life expectancies than we have in the United States, so that goes to show that their social and economic system is superior. But you puncture that quite effectively.

SANANDAJI: In America a very common argument is, look at Denmark: they have the highest taxes in the world, they have socialized medicine, they have a lot of government benefits for when you're sick. And look, they're living one and a half years longer than Americans, so if we become social democrats we'll live one and a half years longer.

Well, in my book I explain the following: in 1960, Denmark had lower taxes than the United States at the time. They had very small government. At that time, before the big welfare state, Danes lived 2.4 years longer than Americans. And this is not only Denmark. All the Nordic countries had higher gaps on lifespan compared to Americans before they transitioned to being welfare states. And today if you look at the Nordic countries, Denmark, which has the highest tax, has the lowest Nordic lifespan. Iceland, which is the only Nordic country never to really go towards social democracy, has the highest lifespan.

And maybe you say it's because Iceland has such a fantastic climate. I mean, their country is literally called Iceland. It's very cold. Iceland is a volcanic, barren country. But they have a Nordic culture. They have a Viking culture. They like going out; they like doing sports, taking long hikes, eating fish, and their culture is what makes them live long, not socialized medicine. So I think it's very clear that a lot of the success of Nordic societies is not about politics; it's about their culture, and really, everything that Bernie Sanders, Hillary Clinton, Bill Clinton, and Barack Obama admire about these countries are things that existed before the welfare state, and are due to culture rather than policy.

WOODS: Talk about the cultural aspect of the success of these countries.

SANANDAJI: Nordic countries were populated by independent farmers who owned the land, and were living in a very difficult climate. It was very difficult to be a farmer in the Middle Ages in the Nordic countries. You have to work really hard to survive, and the weather is quite unforgiving. These Protestant people developed a unique work ethic, unique responsibility ethics, unique ethics about helping your neighbors, and a lot of trust of strangers. They would cooperate together. And for a long period they had free markets and very limited government, combined with these Nordic super norms. And the Nordics thrived. They became super successful.

And what I think Bernie Sanders supporters would be shocked to discover is that all the good aspects about Nordic countries, like income equality, long lifespans, low child mortality, low poverty, all of this evolved before big government. And they evolved because the culture values hard work and individual responsibility. Understanding Nordic success makes you understand the limits of what government can do – the success of the countries admired most by the Left in the US, by the Left globally, is not about politics; it's about culture.

WOODS: One way of trying to verify this theory would be to do something that you do in the book, which is to look at people who live in Sweden and then people who move from Sweden to the United States and see: do they carry these different characteristics with them and do they have success here in the United States? What have been the experiences of Swedish Americans?

SANANDAJI: A large portion of the Nordic populations migrated to the United States. There are more Nordic Americans than there are people in any individual Nordic country. So it's a big group, I think like 12 million. And it was mainly the poor people, not the wealthy ones, who migrated from Sweden to America – people who didn't own anything, didn't have any land. So you might expect them to be less successful than their cousins in the Nordics. But what I find is that Nordic Americans have a 50% higher level of prosperity in terms of income than their cousins in Nordics, which is a huge difference.

And maybe you say, okay, we know free-market capitalism in the U.S. is better at creating economic prosperity. But what I also find is that if you look at social metrics, Nordic Americans are much, much more successful than their cousins in the Nordics. Their unemployment level is about half that of their cousins in the Nordics. Their high school dropout rate is much, much lower. And shockingly – I really think Bernie Sanders would be shocked if he knew this – the poverty levels of Nordic Americans are much, much lower than the poverty levels of their cousins in the Nordic countries themselves. And I show this to be true for Swedish Americans, Finnish Americans, Danish Americans, and Norwegian Americans.

So it would seem that the American system, once you compare apples with apples, is not only much better at creating wealth; it is also better at creating social good. And this is completely in line with my other observation that Nordic countries' social and economic success was more pronounced before they had big welfare states.

WOODS: You have a chapter on where the American dream really comes to life, and it builds on some of the points that you've been making just here. I think it was in *The Huffington Post* where there was a snarky article not long ago saying something along the lines of, "Do you want to pursue the American dream? Then move to Finland." You have no

patience with this whatever.

SANANDAJI: One of the Left's standard claims is that the American dream of income mobility and social mobility can be seen in the Nordics. Bill Clinton made this claim in his book *Back to Work*.

And in my book I show that, no, absolutely not: the American dream of income mobility and health mobility and educational mobility seems to be much more alive in the US than in the Nordics. And I look at immigrants, and I show that immigrants in the US are much, much more successful at getting jobs, and their health is better than that of the immigrants in Nordic countries, even though the Nordics have socialized medicine. And the educational outcomes of the children of immigrants are much better in the United States.

This may come as a surprise to Americans, but if you look at Nordic countries, if you look at northern Europe, the European welfare states are having huge problems trying to integrate immigrants. We've got ghettos; we've got fighting; we've got crime; we've got stones being thrown at the police; we've got cars being set on fire; we've got young people joining ISIS, moving to Syria and Iraq to be radical fighters, terrorism.

Why? One reason is that immigrants are not given that good of a chance to climb the social ladder in the European welfare states. The fact that European welfare states seemingly have social mobility is that they have one, big group; they are homogeneous societies. Yes, Swedes climb the social ladder because they come from this culture where they work hard and have a lot of social capital, and a sense of individual responsibility. But once you have other people coming to Sweden, they're not successful – which, again, is my point. Their cultures are successful, but their systems are not very successful.

WOODS: The basic story of the Swedish welfare state is a story of Swedish prosperity prior to the welfare state when you had more or less a market economy, where you had from 1870 to 1970 a century of tremendous growth, prosperity, entrepreneurship, and business expansion. And then that really slows down. Certainly entrepreneurship slows down with the very, very high taxes, and the economic growth slows down. But couldn't somebody in Sweden say, it's true that it slowed down in the era of the welfare state, but not catastrophically, and I'm willing to accept somewhat lower growth in exchange for people having free health care, people having their basic needs met so that nobody feels like one disastrous health event could ruin them completely?

SANANDAJI: When Sweden and other Nordic countries had small welfare states they were very successful. But once they moved to a large welfare state, one important thing to realize is they didn't really get any social advantage. And currently you have a big debate about the fact that many people are not given health treatment, because it's a public health

care system and you wait in a long line to get health care, and it could easily be half a year, one year, two years before you're given adequate treatment. So we even have stories recently about cancer patients in Sweden not being given treatment, and then the doctor says we can't treat you, it's too late. So you should realize, first, that their systems are not functioning as well as you would imagine.

Secondly, the Nordic people would be much more prosperous if they had lower taxes. I think my comparison with Swedish Americans shows that Swedes would be approximately 50% more prosperous if they had the American economic system, which is a lot. That's a lot of money for an average family.

And lastly, one thing I think you should realize, and I explain this in *Debunking Utopia*, is that if you look at Sweden, we had four different economic policy periods. One of them was when we had very free markets, and that was super fantastic. The other one is the early social democrat period, when Sweden had a small welfare state but stayed true to its free-market policies. That was kind of successful in terms of growth. Then Sweden had this period of experimenting with socialism, which was an absolute catastrophe.

And lastly, since the beginning of the '90s we've had a lot of market reforms; we've been cutting back on the welfare state; the generosity of the welfare state has been reduced; and a number of economic freedom reforms have been introduced in Sweden that even Americans would never consider, like partial privatization of the pension system. We have a lot of for-profit schools through a voucher system. We have a lot of for-profit elderly care centers. So a lot of the Swedish welfare system has been liberalized. And this is the story of all Nordic countries. In many cases, Nordic countries have more free-market policies today than the United States, and the reason is they've been trying to compensate for a big welfare state by having economic freedom in every other possible area.

WOODS: I want to close by asking you, if I may, to tell us about your experience as an immigrant family. Your family came to Sweden as immigrants, and as you say, they were apparently on the receiving end of some of the Swedish benefits. Did that help you see anything up close that helped clarify your thoughts later? Was there anything good, and was there anything negative in your experiences with these sorts of programs?

SANANDAJI: Of course the good thing was that the Swedish welfare system supported our family. My brother and I both got Ph.D. degrees, and all of our education was funded by taxpayers. And if you come from a poor family, you're happy to be able to go to the best universities, even though you can't pay for them. So that's certainly good. But I experienced how a family where my parents could have worked, absolutely my father could have worked – and he did work, and my mother also worked, but you know, it's a socialist system where it was easy to live off the government and difficult to get a job.

And one of the most perverse things I experienced is that when my mother was working we were actually getting the same amount of money as when she was not working. When I grew up, one of the policy reforms I wrote about and then actually was later introduced by the government was: have a system where welfare families will get more money if they start working than if they don't work. And that actually became policy, and the bureaucrats acknowledged that they took it from my report.

You would see how otherwise middle-class families would become welfare-dependent families. It changed their mentality, and it changed the mentality that they were transferring to their children. And I think if you're interested in policies, if you're interested in how society works, one of the reasons you might like to read *Debunking Utopia* is that I explain with a lot of research that, yes, too much welfare actually hurts the poor. We know this. By looking at the Nordic countries, we know certainly that too much welfare actually hurts the poor. It traps them in dependency. That's my family experience.

It's also one of the main reasons that there's so much social unrest in the European welfare states. It's one of the reasons that you have cars burning; you've got police attacked in Paris, in Stockholm, in Gothenburg, in many of the cities in the European welfare state. Large groups of people, mostly of immigrant origin, are trapped in government dependency. The parents' generation is trapped in government dependency, the children's generation is trapped in government dependency, and it just continues. So absolutely, having some welfare can really help people in marginalized families, but having excessively generous welfare actually is bad, even for the poor.

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Chapter 2

How Capitalism – if Only We'd We'd Legalize It – Lowers Health Care Costs

With Dr. Josh Umbehr

Dr. Josh Umbehr operates a concierge family practice in Wichita, Kansas, and counsels doctors about making the transition to direct care, bypassing insurance and government, through Atlas.MD. This chapter is drawn from episode 481 of the Tom Woods Show.

WOODS: Although your practice is not completely unique, it's highly unusual from the point of view of the average consumer of health care, and the average provider of health care. I want people to know exactly what it is you do, and then I want to talk about the more general question of government and health care. So tell me about Atlas.MD and how it's different from my neighborhood physician's office.

UMBEHR: Well, in a lot of ways nothing's different, and in some ways everything's different. It's Marcus Welby medicine with an iPhone, because it's going back to what a lot of people remember from their doctor in the old days, where they worked directly with their doctor, there was no insurance, you paid with cash or chickens, and the doctor took care of you.

But in our system, we started with the idea that we have insurance for the wrong things. We don't have car insurance for gasoline or homeowner's insurance for lawn care; why have health insurance for family medicine, the bulk of what most people need?

And we were able to remove that middleman, the third-party payer; we structured it a little differently on the billing side, so it's a flat rate per month based on age, just like a gym membership, and for that membership you get unlimited home visits, work visits, office visits, technology visits – like email, cell phone, texting, Twitter, Facebook, Skype – basically whatever we want, because now we're not limited to what insurance will allow or pay for. Then we have no copays in our office. Any procedure we can do in the office is included free of charge, because that's what the membership is covering, just as any equipment in the gym is included at the base membership price – so stitches, biopsies, joint injections, ultrasounds, bone scans, lung scans, urine testing, strep throat testing, minor surgical procedures – all included for free.

Something else we do that makes us very unique and valuable is wholesale medications, labs, imaging, and pathology. We had a perfect example recently. We ordered some blood work – we have our negotiated cash discounts of usually 95 percent – and a patient's blood work was accidentally billed through the insurance rate, because of a computer mistake at

the lab. The price that they were quoted was \$1,028. We ran that back through our system, and it cost \$39 – a 97 percent savings just by cutting out the middleman. And it’s an amazing opportunity; it’s far past the 10x improvement that most entrepreneurs are looking for.

We can do the same things with medications. We outcompete the Walmarts, the CVSs, the Targets of the world, because we have a different business model. We can dispense medications in Kansas just like a pharmacist. Forty-four states allow physicians to function like this. I can order the medications wholesale from the same places the pharmacies do, but I can get 1,000 blood pressure pills for \$8.33. Even after my 10 percent markup, they’re under a penny a pill. Walmart would literally have to give them away to outcompete us, and if they do, great; we still win. It’s not a value that’s a revenue generator for us; we’re adding to the value of the membership, very Costco-esque.

So we could drastically reduce the costs of people’s health care by 80 to 90 percent. We can take all of the value; we can go to your employer; we can restructure their insurance plan, decrease the premiums by 30 to 60 percent, year one. We had an example of a company here in Wichita, Kansas, 18 employees. Long story short: from 2013 to the end of 2014, they decreased their out-of-pocket costs for insurance from \$98,000 to \$47,000, year one. Now, employees had unlimited access 24/7 to their doctor – call, text, email, visits, hour-long appointments if necessary, free stitches instead of going to the ER – but none of that was claimed toward the insurance. Even the insurance company loves us now, because they realize they’re in the business of insuring rare, catastrophic events, not the daily things.

So in a lot of ways, we haven’t done anything different – this is regular medicine, regular blood pressure, regular stitches, regular doctors – but then in other ways, we’ve done everything different. The exciting part – but maybe the sad part, too – is that all these pieces were in place for the last 20 years. Any doctor could have been doing this going back a long ways. We didn’t create a new way of dispensing medications, of dispensing labs. Those discounts were already available inside the system. It just took doctors who were willing to say: the system’s broken, and I’m going to take a very logical business approach to this.

But that’s not medicine. In med school, we were taught that business is bad, it’s beneath us, it’s unbecoming and unprofessional of physicians to dirty their hands with it. Of course, I didn’t buy that. Business is the most ethical of things, because it forces you to ask the question: what is value, what is right? And I can go to a patient and say, you’re getting your migraine medicine for \$200 a month at the pharmacy; I can get it for \$6. That is a better value for you. If I take my oath of “do no harm” seriously, it has to include “do no financial harm.” That means I should be the constant advocate in an open and free and efficient market for my patients, looking for the best prices, the best quality, guiding them and bringing high value to them, just like Amazon, just like Walmart, just like any other industry. And so as doctors take that responsibility on, their patients are the beneficiaries of that.

WOODS: After listening to everything you just said, I can't help wondering how we can account for the staggering scope of the savings you're talking about. I could see a little bit of savings here and there, but the scope of the savings you're talking about essentially solves the health care problem. So what could possibly be going on here?

UMBEHR: Well, I think we all understand the health-care system is bloated and expensive and bureaucratic and cumbersome, and everyone complains about the red tape. So if we just associate that red tape and bloat of the system and equate that to dollar signs, it makes perfect sense why everything is so expensive and why the health-care system is broken. But on that same message would be the proof that we can lower the fees. Actually, doing a blood test isn't expensive. We've done that for so long, and the cost of doing that has been driven down to pennies on the dollar. It's the delivery of care, it's the payment system that is expensive.

So when we're insuring the equivalent of gasoline for cars, oil changes, tires, windshield-wiper fluid, then we're going to get a very bloated system. And it's not that insurance is bad; it's that we've been using it wrong. So actually I blame doctors more than I blame the insurance company – not that they're blameless, but the real fault lies in the fact that we're using it inappropriately. Einstein said that if you judge a fish by its ability to climb a tree, he'll forever think he's unable. And if we think that we're going to pinch the cost curve by adding more red tape to the system, then we're fools.

What we need is a free-market system, and I think we can all agree that there's probably never been a mechanism in history that will find efficiencies and drive down the cost of a product and drive up the quality quite like the free market. So when doctors have to compete with other doctors, when hospitals have to be transparent in their prices, when the provider of care, the deliverer, is taking their oath to the next level and saying good business results in good medicine, when done appropriately – this idea that medicine is above business is ridiculous.

The reason health care is broken is that we don't have a Walmart or an Amazon, a Sam Walton or a Jeff Bezos who have a pathological desire to drive down the cost of their goods and services because they understand what it means to be valuable. Einstein also said, don't aim to be a man of success; aim to be a man of value. I love that quotation, because we're constantly telling that to other doctors looking to start this model. How do you want to be successful? Be valuable to your patients, and they will come to a model like this.

Doctors will tell me, well, I can't get my patients to pay \$20 for their copay; how am I going to get them to pay \$50 a month? Well, a \$20 copay for a seven-minute visit that you're

an hour late to is not a value. Fifty dollars a month for unlimited access is. Netflix to Blockbuster. Blockbuster had an unpredictable fee-for-service type revenue model, very analogous to our current health-care system. Netflix found out how to give me 10,000 videos for \$7 when Blockbuster could give me only one for \$7. So if we apply that same innovation to health care, it only stands to reason that we can drastically reduce the cost curve.

The innovator's description of the standard Silicon Valley bar is a 10x improvement; you have to be that much better before the barrier to change is overcome. We're at 20x better. If you go back to the last year that I have data for – I think it was 2011 – the total cost for all prescription medications in the U.S. was \$263 billion. The cost for all cancer care was \$157 billion. So with our wholesale changes – and we can get cancer medicines cheaper. Not all of it; not everything's cheap. Some stuff is just expensive. But if you get that lower, and we have an example where we had a breast cancer chemotherapy pill that was \$600 for every two refills at the pharmacy and \$7 with us – a literal 99 percent savings. We gave it to her for free, just so we could say we were now providing chemotherapy. So let's just be minimalists and say we save only \$157 billion out of that \$263 billion in prescriptions for all the things that are expensive. Well, then we've paid for all cancer care.

Go a little bit further and take out all the administrative burden of that, the duplication of cost, the waste and inefficiency. So when we talk to an insurance company, they'll say family medicine as a total cost isn't enough for us to change if you take that one small piece. I say great, look at the full value proposition under the umbrella of direct primary care, and you will see a value that will incentivize you to change, because that is all the copays, all the procedures, all the family medicine bills wiped away, but then extend that out to the laboratory, the pharmacy, the imaging center.

No one goes to the ER for \$1500 in stitches when I'll do them for free. Why do I do them for free? Same reason Costco does things for low cost, low profit: to protect their membership. So my stitches cost me a dollar each. They're going to expire in a year if I don't use them anyway. I might as well at least get some value with my patient. And my job, just like Jeff Bezos and just like Sam Walton, is to save you money, and make you healthy. So if I saved you \$1500 on your stitches, you're going to come back with me, you're going to stay with this membership. I've become valuable to you, and that's how I become successful.

And in the process of appropriately aligning the incentives from doctor to patient to insurance, or to employer and to insurance, we changed the system. Just something as simple as that transparency in price. I have it on my desktop as something I need to post for social media, an example of what's broken with our health-care system: name-brand price for 30 pills of a medication, \$268. My generic, \$5.39. So when you align the incentives appropriately, no employee wants to pay \$268 out of their dollars for a name-brand medication that's no better than the \$5 equivalent. So you saved the system \$263 just by appropriately

aligning the incentives. What patient wants to submit a bill to their insurance to wash their car? It makes no sense. Why would you submit a bill to your insurance for a \$5 medication? So we start removing administrative costs, we start putting the true cost of care directly in the hands of the patient, and they can decide to be as aggressive or conservative as they want. And that makes a very free and efficient market.

Walmart, Target, Amazon all know they're constantly competing against each other for similar products. TVX, I can go on and find out the price and compare, and it's going to be within a marginal difference from each store, because they know what the other stores are selling it for. But medications? I can pull you up one, using a free-market tool, GoodRx.com. One of my favorite examples is Imitrex, a migraine medicine that at the pharmacy, for the name brand, as I pull it up now, is \$565 cash price, anywhere from \$447 to \$486 with a coupon. The generic is \$260 cash price, as low as \$101 – that I get for \$5, my patient gets for \$5, because I don't need to make revenue off the medication. I'm trying to make them healthier; I'm trying to save them money; I'm trying to show the value of my membership.

So every month they refill that medicine, I'm saving them at least \$100. Their membership's \$50, their medicine's \$5. I'm giving them \$45 of their life back – that's life, that's time, that's energy. So when someone says, well, this works well only for the rich, for the healthy, that's ridiculous. This works out best for the sick and the poor. Just like any market, I'm reaching the people most likely to benefit from a food service or a phone service or a car service. So the people who want to save money on their medicines and are sick enough to need medicines benefit the most from this system.

So the government is paying \$101 for that migraine medicine instead of the \$5 that they should be. Walmart doesn't want a free market in medication, because they're competing against a very inefficient system. CVS gets to charge that much; Target gets to charge that much. And 65 percent of all prescriptions are controlled now by four large companies. But it takes only one spot of innovation, one doctor like us to say *I'll do it differently; I'll be the little company that eats the big company, because I'll offer value that you can't compare to, because I'm looking out for my patient*. If physicians had been doing that the whole time, we'd have a completely different health-care system.

WOODS: A typical politician will say that what we have in health care now is capitalism, and that's why we need less capitalism, because it's obviously given us all these problems. How would you respond? Secondly, since I'm sure you don't believe that, where did it all go wrong, so that we have all these perverse outcomes?

UMBEHR: I think we have capitalistic components to our health-care system, but when 52 or 53 percent of all health-care dollars are paid by the government, between Medi-

care, Medicaid, state agencies, you don't have a free market. Doctors have to opt out of their contract with Medicare and the government penalizes them for two years, that they can't come back in. That's not a free market, that's not free flow of providers to services to people in need. The restrictive contracts that we have with insurance companies isn't a free market.

If you want to compare Medicaid to Lasik eye surgery – and again, yes, this is apples to oranges – but broad terms, most states can show that Medicaid patients, in a pure government system, have worse health outcomes than uninsured, because at least I can charge a fair price to an uninsured patient and make money. Medicaid, I am told what I can charge – that's not capitalism – and I lose money on that – that's not capitalism – and so I don't take those patients because they're not a value. I can lose only so much money and keep my doors open. So they end up getting worse health outcomes. That is a badge of recognition – I have a Medicaid card – that does not serve them well. It covers some things, great, but it still doesn't result in great outcomes.

Compare that to something like Lasik surgery for eyes, where the cost continues to go down and the quality continues to go up, because there's little to no government regulation on that end. So the market is free to move forward as quickly as possible.

Another great analogy would be the iPhone to most medical technology. Most medical technology is a decade behind where we are with anything else. But the iPhone, with limited government restriction, can create the best software that they know how to make and meet the needs of their clients in whatever way they see fit, to the point now that a billion apps have been created. But that's without regulation and everybody's free to create a unique product.

Government dictates how we create health-care software and says: to get paid by us, and we're the 800-pound gorilla, it has to do meaningful use or it has to do ICD-10, which is coming down October 1st, and we're going to go from a mandatory 15,000 different billing codes to 155,000 different billing codes. They are continually pulling out components of the free market and complicating it with their bureaucracy. So I think we're going to get all the love and attention of the DMV with all the efficiency of the post office.

WOODS: But what about all these examples of countries that have single-payer systems, and if you poll the people there, they say they love their health-care system?

UMBEHR: Oh, they do – if they don't use it. The World Health Organization (WHO) says that we rank 38th in total health care, right below Cuba. Well, when they can't blind you with their brilliance, they're going to baffle you with their data, and lies, damned lies, and statistics. What we know is that study was horribly flawed. They were supposed to re-

peat that every so often like a census; they never repeated it again because the data was so bad. Cuba just self-reported data, and their self-reported data says they're better than the U.S.'s data. But we actually submitted information.

Part of that is the grading criteria: you pre-weight the scales so that the people you want to win, win. The grading scale for how points are awarded to rank health-care systems is based on egalitarian distribution of health care. Well, Cuba has a very egalitarian distribution of health care. Everybody gets the same awful health care. And countries like Canada won't diagnose cancer after 75.

Infant mortality is a great example, because there are very few countries that strictly follow the WHO's definition of what is considered an infant death. Basically, if it comes out breathing and with a beating heart, it was a live infant. Anything after that is an infant mortality. Some countries will change that data and give it a month before they'll consider it a live baby, and any death in the first month of life is considered a stillbirth. So we're not comparing fair data to fair data. But I think you can say, well yes, compared to Second or Third World countries, of course we have better infant mortality rates, but we're actually being more honest with the data than other countries.

So those are the things that don't get reported. Maybe we have worse health-care outcomes and we spend twice as much. Again, it's a bit of a straw-man argument. We already know we spend too much because of a bloated, bureaucratic system, most of which the government has created. In our system, we have no red tape. If a patient wants a medicine and it's appropriate, we give them the medicine. There's no administrative cost involved. The average physician would have seven employees per doctor to run a practice. We have half of a full-time equivalent per physician, because of less regulation, less red tape, less bureaucracy. That would drive down the cost of care.

So yes, we may be more expensive, but we get better outcomes, and we also buy what we want. If I want to go to the ER because I'm worried about something, I can. Not every country can do that. If I want to have an eye surgery that may be more elective, I can. In Canada, you can't. If I want an MRI because I'm concerned about my back, I can go out and purchase that on the open market. In Canada, you can't. So just because we spend more and we get different outcomes doesn't necessarily mean that those are better or worse. Those are consumer decisions made based on what people want for their health-care dollars. And I'll be the first to agree that there's a lot of bloat, but at the end of the day we still have more options, more choice to decide what we want to do.

I think Malcolm Gladwell said it best when he was interviewed recently for a physician website. He said that he's occupied every position on the bell curve from socialist health care, Canadian health care, to free market, and now he's on the free-market side, where we

probably need less insurance, less government, less bureaucracy, because those things aren't adding value, but are adding a cost. So the fact that we can remove all that cost and still give our consumer, our patient, high choice, is a bedrock of American capitalism.

WOODS: The whole health insurance system that we are stuck with – as you note, there's something odd about the fact that you have insurance to get an ordinary medical check-up, but you don't have insurance for all the other things you know you're going to do: oil changes for your car, etc.

UMBEHR: Right.

WOODS: Insurance is traditionally for things you don't expect to happen. This seems to have gotten started as a result of a peculiar feature of the tax code – that during World War II, when wage and price controls were in effect, you couldn't attract additional labor by raising wages because it was illegal to do so. What you could do was offer fringe benefits, which in some cases amounted to having your health care paid for pre-tax. This then became a demand that labor unions had for the future, and it became embedded in the whole system.

One more thing: how is Obamacare going to affect the kind of practice you have?

UMBEHR: Well, slightly tongue-in-cheek, I'm probably one of the few physicians excited about the Affordable Care Act, because – and this is less Obama; Bush was no friend of the free market at the end of his eight years. Every politician raises the cost of government and health care and bureaucracy and regulation. It was broken before Obama; it'll be broken after him. But he is speeding it up. The Affordable Care Act is complicating the delivery of care so much that it's driving doctors out of practice. It's making insurance go up 40 percent a year. In Kansas, Blue Cross has quoted that their average increase will be 37 percent going into 2016, because we're insuring too much. So as insurance continues to go up in large part because of government reform – and we haven't raised our prices in five years: \$10 for kids, \$50 per month for all the access that we offer – the delta continually looks better in our favor.

In fact, I don't know if our model would succeed in an economic high point, because as incomes are high, there's no need to change. People are comfortable with the status quo as long as they can afford the status quo. We almost need some turbulence in the market for people to see the value of innovation. If I tried to sell you car insurance that's structured like health insurance now, you wouldn't take it. It wouldn't make any sense. But we stay in the status quo of health care because that's the way we've always done it.

So the Affordable Care Act is providing some amount of pressure to incentivize people to look for more logical, more affordable, more commonsense options for insuring their high-risk health care and for paying for the rest of their health care from doctors who practice insurance-free models like ourselves – so that now, instead of paying a \$25 or \$30 copay for a \$50 blood test, they pay the doctor directly \$1.64 for that same blood test, and don't insure that, and pocket the savings. So it's a down economy, increasing government regulation, increasing business stress – because of compliance with a bloated, bureaucratic regulatory system – that drives doctors, patients, employers, and even the insurance to a model like this. That pain point has now hit every key player in the health-care system to the point that they are actively seeking out innovative solutions to survive.

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Chapter 3

Medicare for All, and Other Disasters

With Dr. Jane Orient

Dr. Jane Orient is executive director of the Association of American Physicians and Surgeons. She has been in solo practice of general internal medicine since 1981, and received her M.D. from the Columbia University College of Physicians and Surgeons. This chapter is taken from episode 1351 of the Tom Woods Show.

WOODS: Let's start with the proposal for Medicare for All, which we see a number of Democratic candidates advancing and which seems to be very popular in the polls – when nothing about it is actually spelled out to the people being surveyed. What exactly would this proposal look like?

ORIENT: One thing is that it would disallow any private insurance that would duplicate the Medicare for All coverage, which means you couldn't buy catastrophic hospital insurance or insurance for life-saving things. You might be able to buy private insurance for tummy tucks or unnecessary procedures, but not for the things that would save your life. Support for this proposal drops significantly when people find out that they would have no choice about it.

And when it says “for all,” it means for all, and that means everybody in and nobody out. No matter how bad it is, no matter how often they send people who could recover to hospice prematurely, no matter how many long waiting lines there are, you would not be allowed to buy your own medical care or your own insurance that would supposedly duplicate what Medicare covers but you can't actually get.

WOODS: What kind of a price tag do you think this carries? It's hard to know at this point, but that is a problem with it, is it not?

ORIENT: I think I've heard like \$30 trillion over 10 years or something like that, or maybe even more. It sort of depends on what the thing is supposed to do. But it really makes a lot of sense, doesn't it, to take a program that is scheduled to go bankrupt – which means that not only is the income less than the outgo already, but also the so-called trust fund is being devoured, and there is at least \$40 trillion in unfunded liabilities, promises made to the elderly Medicare population for which there is no source of revenue – doesn't it make a lot of sense to throw everybody in this program that's bankrupt as it is?

WOODS: No kidding. What is the difference between Medicare for All and so-called single-payer? Or are they the same thing?

ORIENT: I think it sounds like the same thing. Single-payer means that you're not allowed to pay, that if the "single payer" doesn't pay, you can't have it. The "single payer" is the government, which means the taxpayers – government doesn't have a money tree that it can shake and come up with unlimited funds. If you're outlawing private insurance, well, then that really means it's a single payer, except I guess you have a choice of how to administer it. You can either have quasi-private carriers like Medicare does, or you can have a VA equivalent.

WOODS: What's it like on the physician end dealing with Medicare?

ORIENT: I haven't done it for a long, long time, because back when this resource-based relative value scale came into effect, and I looked at what I had to sign to send in a claim so that I was doing everything accurately, and I looked at the requirements for the AMA's coding system, I said: I can't figure this out. I was a math major, but I can't figure out how you calculate all the bullet points and stuff that you're supposed to have in order to document the service that you offered. And so I just quit accepting money from Medicare on that very day.

But I do know that doctors are being prosecuted, they're being fined draconian fines, their offices are being turned upside down by audits, by recovery audit contractors who get a bounty for the amount of fines they can do. For a single mistake, you could be charged more than \$13,000. It really is very intimidating. I think the only way to escape from these massive headaches and threats to your livelihood and your freedom is to get out of Medicare.

WOODS: Let's look at this from the point of view of an ordinary citizen, who hasn't read anything about the history of American medical care, and has no idea what the various government interventions are. All this person knows is that he sees medical bills that seem completely untethered to reality, and legitimately fears that one major medical emergency could lead him into bankruptcy. That's not an illegitimate concern.

But what's the true source of this problem? We get people saying that all around the world people are happy with their medical care, but here in America wicked capitalism is jacking up the prices. What's the reality of the situation?

ORIENT: I think the crony capitalism and government interference and the reliance on third-party payment are the cause of this. These medical bills that you may get are so high that virtually no one could afford to pay them, and they virtually are not paid. The insurance company, who really should be called a third-party payer, makes a deal with the hospital to cover some fraction of it. And it's very much to the hospital's advantage and the insurer's advantage for these bills to be very, very high, because the insurer can say, "Hey,

look, if you don't pay us these outrageous premiums, you'll get a bill that you can't possibly pay." They never tell the person that that's not what the service actually costs, and that's not what the insurer is going to pay. And the hospital has these chargemaster prices that it bills the insurance company for. It doesn't get paid, but it can claim on uninsured patients that this is the loss that they took and get the government to give them money to help defray this totally fictitious price.

WOODS: I've talked to people who have managed to maneuver within this crazy system in one of two ways that have led to satisfactory results for them. No individual can change the system, but we all want to figure out some way we can navigate it. One way has been with these health-sharing plans, like Liberty Healthshare. And another has been through cash-only practices that somehow, by not interacting with either Medicare or traditional insurance, have managed to keep costs to a very reasonable level. What other things do you recommend?

ORIENT: Well, I think that's it. You need a free market with transparent pricing. We need to get rid of impediments to free markets, like certificate-of-need laws in many states that keep independent facilities that compete with hospitals from opening up.

If you doubt that these prices are achievable, look at SurgeryCenterOK.com. That's the Surgery Center of Oklahoma. You click on a body part, and it lists the procedures that they make available and the cash price, that includes the facility, the surgeon, the anesthesiologist. And if you pay that amount, cash up front, that is the cost. And it may be even one-tenth the amount that Medicaid may pay at so-called nonprofit hospitals. In fact, that Keith Smith, the director there, told me that he saved one guy \$40,000 on a prostate operation. They didn't even do the surgery. All the man had to do was to take the quoted price for the surgery to his local hospital, and they quoted him a price that was the same as that, plus the amount that it would cost him to fly to Oklahoma City.

WOODS: You mentioned certificates of need. My recollection is that hospitals get to determine whether there's need for additional medical facilities. It seems like they may have a vested interest in this question.

ORIENT: Well, I think you're right: they do have a vested interest. A lot of independent centers, you can get a quote for an MRI, if you tell them you're uninsured, and it may be a tenth of what the hospital will charge or half – anyway, much, much less than what the hospital would charge. And so the hospital naturally has an interest in stamping out this kind of competition.

WOODS: Let's talk about one of the main concerns on people's minds in addition to the high prices, and that is the related question of preexisting conditions. Even the president says: whatever health plan we ultimately decide on, we have to make provision for preexisting conditions. If somebody has a preexisting condition, a private insurer is very unlikely to cover it, and that means they're on the hook for these crazy prices that, as you say, basically nobody could pay. So what is the correct way to think about that, and how would you want to proceed on that issue specifically?

ORIENT: I think that the president and the Republicans are really ignorant of the economics of the situation. It's pretty obvious that you can't insure your house when it's burning down. You can't buy insurance for your car after you've just had a crash. In that situation, yeah, you've got a big bill, but you can't really have voluntary insurance, because who is going to agree to share the price of your house burning down? They're just not going to do that.

Insurance is a voluntary contract in which you agree to share the risk of a foreseeable but unlikely catastrophe. And the way health insurance should work is that I would say, "I'm going to pay in advance in premiums more than I ever expect to get, just in case. I would rather help pay for your heart attack than have you help pay for mine." So it's just like when I buy car insurance. I send the premium to the insurance company; I hope to have no more communication with them. It's reasonable. It's there if I have an unanticipated accident. Otherwise, I understand that that's going to somebody else's accident, and that's okay.

But if you already know that you're sick, and the insurer is forced to give you coverage at the same price as everybody else, that insurer is going to go bankrupt. It's an incentive to wait until you're sick to buy the product. That's why there was the individual mandate: we're going to force you to buy this product at an elevated price and maybe five times the price that would be charged in a free market, because your risk is that low, but you're going to have to pay it, because we want to protect these people who don't buy insurance.

Now, of course, what happened with Obamacare was that a lot of people who were responsibly paying their insurance all along suddenly lost it. And maybe they lost it three or four times. So instead of having this guaranteed renewable coverage that covered them for themselves even if they got sick, after they bought the initial plan, they had to reapply over and over again. And so every time they reapplied, there was an increased chance that they had a preexisting condition. So Obamacare really made the problem a whole lot worse.

And there are ways to deal with the problem. There are state high-risk pools. There are limited policies that limit the exposure. In the old days, when I was able to get catastrophic insurance, it would ask about preexisting conditions, say it's not going to check if you don't

file a claim for a year or two. They could only deny your coverage if you lied to them and they found out about it. So there are ways to deal with it, but abolishing insurance, which means price according to risk, just drives the cost way, way up and defeats the whole purpose. It means that nobody can get true insurance, and everybody's going to pay a whole lot more.

WOODS: Let's talk about what's going on in other countries. We hear all the time that the United States is backward because it doesn't have the kind of health care delivery that exists in other countries, where the state is really at the center of the system. We're told that in these countries they have great life expectancy and good health results. If you poll people, people say they're very happy with the system. Yes, they may admit that in some cases there are long waits, but they balance that against the benefits people receive and that they don't fear bankruptcy because of a health issue. I've even had libertarians say: given the mix of crony capitalism and government that we have in our system now, the results are so bad that it's hard to see how much worse single-payer could be.

ORIENT: Well, I think it could be a whole lot worse, because if there's no out, there's no incentive for things to get better. And all these other countries, polls are going to – if you look at the population as a whole, most people are not sick, so they don't have to worry about being bankrupt if they get a medical condition, but what they do have to worry about is getting any kind of medical service. And people who have had experience with being sick will give you a different story, maybe with some exceptions.

But keep in mind that there are very few of these countries that actually have a single-payer system. Switzerland, Germany, and France all have a parallel private insurance system. You can buy private insurance. You can get private treatment. It's just places like Canada where, if you want private treatment, you want to jump the queue, so to speak, you have to go to the United States or to some other offshore location. Or you have to be a cat or dog. They can keep the MRI center open later and charge cash for your pet, even though it can't do it for you, who might have a brain tumor.

WOODS: Everywhere where there's more state involvement in health care, people say: folks in these countries pay less money.

ORIENT: They don't. The amount that they may pay for their insurance coverage through their taxes is very high. And they may pay with their lives. The UK's NHS is going bankrupt. The hospitals are shabby. They have old equipment. People circle the ER in ambulances for hours. They wait for hours in the ER to then be treated in a corridor. It is not so rosy. And these horror stories come from British newspapers. I'm not making them up.

Or look at our own VA. We have a single payer with the VA. Everyone seems to agree that our veterans should be getting the best in care, but they're obviously not. They're dying on the waiting list. Officials at the hospital may be lying about their statistics to make it look as though people are getting care.

We see Medicare is already cutting back on services. Medicare patients go to the provider; they may not see the doctor; they may get ten minutes with the provider behind a computer screen. They really don't have the doctor's professional time or access to his best judgment, because Medicare doesn't pay for that.

WOODS: Another claim we often hear is: look at countries that have a setup like Canada. None of them have abolished their system. So that shows that people must be content with it.

Now of course one response to that is the familiar one that once a program gets started, the interest groups involved are so entrenched that it can never, ever be gotten rid of, almost no matter how unhappy the population is.

ORIENT: Well, I think that that's a good response, but what the people do – and a lot of them are indoctrinated. They think, Oh, isn't it wonderful here? I am willing to wait in line in pain at risk of death for years, because that's just fair. But there are others who will come to the United States. And if you ask doctors in Seattle or Detroit or Buffalo how many Canadians they're seeing, who come here – you know, assuming that they can travel and they're just not able to get into the emergency room for their ruptured aneurysm. And then the government has a lot of control of the news media and of the information that gets out. Doctors who complain are at risk of losing their jobs or their positions on the insurance panel. That was one of the provisos that I had when I was working at the VA that I discovered after I'd been there for several years: employees are not allowed to speak publicly with criticisms about the government. So it's really hard to get the truth out. Once they get to control of your medical care, they have control over your life.

WOODS: Let's talk about politically feasible reforms, as opposed to what we might ideally want, which is a complete separation of state and medicine. What do you think is the most politically feasible kind of reform that would meet the least resistance and do the most good?

ORIENT: I think you're going to run into resistance from the vested special interests no matter what you do, but the idea that I like best is to say: okay, let's imitate Obama only, let's tell the truth – that if you like your Medicare, you can keep your Medicare. If you like your Obamacare plan, you can keep your Obamacare plan. But let people out.

One first thing we could do is make it possible for people to get their Social Security benefits and opt out of their entitlement for Medicare Part A. Some people wanted to do that, and failed in court, because they could get a substitute plan from their employer only if they were ineligible for Medicare.

Other people like me like it that way, because I want to be able to choose my doctor. I signed up with Samaritan Ministries, one of these health-sharing plans, that will accept you even if you're eligible for Medicare if you decline Medicare, and hoped that if I did have a big emergency that my car insurance didn't cover – you know, there is some medical coverage on that – that the health-sharing ministry would help. Plus, I would have every incentive to tell the hospital: "Look, this bill is outrageous. I will pay you up front in cash what you would have gotten from Medicare, and then leave me alone." And sometimes that works. Sometimes just by asking, you can get a 40% discount from this fictitious bill.

There are a lot of things that you can do to keep the costs down. And you know, you don't want your doctor to have an incentive to kill you. You do not want to be dependent on the really lousy Medicare hospital coverage, which does not cover prolonged stays anyway, and puts you under the jurisdiction of an army of clerks who are continually trying to get you out of the hospital no matter what, to deny you things that might be expensive, and, worst of all, to ship you off to hospice before you really should go there.

WOODS: Can you take a minute to tell us about the Association of American Physicians and Surgeons, where you are the executive director? I have some physicians who listen who may not be members, and I'd like you to make the case to them.

ORIENT: You can learn all about us at AAPSONline.org. We have some articles in our journal, which is available at JPANDS.org, about our history from our 75th anniversary. We were founded in 1943 to fight socialized medicine. There were attempts back then to pass what was called the Wagner-Murray-Dingell Bill, which would have initiated socialized medicine in the US, and we've been fighting the idea ever since. It really does destroy private medicine. It destroys the patient-physician relationship. It turns the patient into livestock on the government ranch. It turns physicians into serfs, who are servants of the state, who are risking their own well-being if they really stick up for their patients and deviate from the protocol and the cost constraints.

WOODS: Almost nobody knows the real story from the physician side.

ORIENT: Yeah, they do complain a lot, though, about the treatment that they're getting.

WOODS: That's true. But they think it's just because the doctor is a bad person and won't spend time with them. And maybe that is the case, but it could be that the doctor is just overwhelmed and can barely cope.

ORIENT: Well, at least something like half the doctors suffer from burnout, supposedly. We lose a medical-school-class-full to suicide every year, and a lot of doctors are retiring early, or they're going to work for the hospital and just kind of becoming a good, docile employee.

WOODS: Well, I'm sorry to hear that, but I am glad that there is an AAPS out there. So AAPSONline.org is definitely the website to check out, and Dr. Orient, thanks so much for your time today.

ORIENT: Thank you so much.

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Chapter 4

Down With the Green New Deal, Says Former Greenpeace Director Patrick Moore

Patrick Moore spent nine years as president of Greenpeace Canada and another six as a director of Greenpeace International. He is the author of *Confessions of a Greenpeace Dropout: The Making of a Sensible Environmentalist*. Follow him on Twitter @EcoSenseNow. This chapter is drawn from episode 1386 of the Tom Woods Show.

WOODS: You had an interesting and newsworthy to Rep. Alexandra Ocasio-Cortez about her Green New Deal proposal. The thing is so sweeping and more or less insane — she’s proposing retrofitting every single building in the entire country — but the excuse she uses is, Well, the scope of it is commensurate with the scope of the crisis itself. So of course it’s radical, because we face a civilizational catastrophe if we don’t do anything. You had a fairly pithy response.

MOORE: Well, my pithy response was that it would cause an immediate collapse of the agricultural system worldwide if it was adopted worldwide, and would result immediately, beginning in the center of the large metropolises, in starvation and death and cannibalism, no doubt, as it spread outwards, to end up with only a few subsistence farmers surviving in the wild. So that’s my take on it, if we just instantly implemented it, which is pretty quick. Ten years is pretty much instantly.

But at one point she said, “I’m the only one who’s come up with a plan that can deal with the scope of this problem, so I’m in charge, and the rest of you are just in the cheap seats.” And then not long after that, she said “I’m the boss” in one of her little clips. That got my hackles up so I tweeted out, “You pompous little twit, you don’t have a plan to feed 8 billion people without using fossil fuels. There are these things called tractors, and there are these other things called semi trailers that need to carry 40 tons of food at a time into the inner cities in all our metropolises, where there’s not enough room to grow the food for the people in the 60-story high rises, and without fossil fuels this system would break down and immediately result in mass death. And in addition to that, if we quit fossil fuels tomorrow there wouldn’t be a tree left on this planet within a very short time. Is that the future we want for human civilization, to absolutely decimate the entire global environment for firewood to cook and heat our homes, which is what would happen with this many people?” So that’s how it got started.

WOODS: When you look at the Green New Deal as a whole, you notice something right away: maybe two-thirds of it really has to do with her social and economic goals much more than it does with the environment, which is obviously a cover for the social and

economic goals. If you really thought the world was ending in X number of years, your first concern would not be, well, let's make sure women get to have the new construction jobs. You would say: let's let that all shake out the way it shakes out; right now we have to make sure the world doesn't end. But she's making sure that all kinds of racial and gender balances are going to be maintained and that certain wages will be maintained and labor unions will do this and that. Those might all be highly desirable things for some people, but they would not be the main thing on my radar if I believed in a coming climate disaster. I would be saying anybody talking about that is crazy. The world's about to end.

MOORE: Well, Tom, I don't understand what she means when she says the world will come to an end. It's not going to actually explode into small bits.

WOODS: Right.

MOORE: So what does the world coming to an end look like? To me, the world coming to an end looks like eliminating fossil fuels practically overnight, and getting rid of 85% of the energy that runs our entire civilization globally. To me, that would be something along the lines of Armageddon, the end times, and although some people would survive that, it wouldn't be a very nice form of survival. We'd probably go back to a 35-year average age for individual people. So I don't know what she means.

I agree with you, though, that the whole thing is just a front for her social program and her so-called economic program, which is also ridiculous. The only part about it that I agree with is I do agree with equal rights. I don't agree with equal wealth, though. I know some people are more capable of creating wealth than other people are, and I think it's a good thing that there are safety nets, and that there's medical care for people, even if they don't have insurance, that hospitals will take them in. And so we have a caring society in the Western world, to a large extent.

I just don't understand the socialist agenda being adopted when we can see that it's been under socialism, fascism, and communism that hundreds of millions of people have been killed. And today, even now, we have these dictatorships and socialist, basically, juntas and dictatorships around the world where it's centralized control and lack of individual freedom, and it's not a good model. And there's no example of it having been a good model. And people who have this dislike for the United States, it's almost a self-loathing writ large. This is also a hallmark of a lot of these people: I don't think they actually like themselves. No one could project a dislike for the whole of the United States of America unless they didn't like themselves, in my estimation. I'm not there, so I don't really understand the psychology, but it's something like that, I think.

WOODS: It puts me in mind of Robert Frost's definition of a liberal as someone who

refuses to take his own side in an argument.

Let's talk about nuclear power for a minute. Before our conversation I checked what Greenpeace has to say about nuclear power. They describe it as "a distraction from the real solutions to climate change." I found that so revealing. They say it's a distraction. Well, it can solve a lot of our problems without a lot of the dislocation and revolutionary change, but if the point of what you're doing is dislocation and revolutionary change, then yes, nuclear power would be a distraction from that. Am I being too cynical?

MOORE: No, not at all, Tom. That's the reason Greenpeace was the first one to put up the big sign saying "Resist" in front of the White House after Donald Trump was elected. And that is their motto now, from behind closed doors, too. When was the last time you saw Greenpeace actually do any action out in the real world, like we did when I was with Greenpeace for 15 years back in the '70s and '80s? They do nothing. They're like a bunch of college kids on a summer cruise on their \$32 million yacht, which they claim is run by sails, that actually has an 1850-horsepower diesel engine down in the basement. They are completely bereft of any moral model, of any kind of credibility or any kind of righteousness. Some people say these kind of movements – and this is why I left, of course – start with noble intentions but eventually turn into a business because they've got a payroll to keep, and then they become a racket. Greenpeace is well into the racket stage, I'd say two decades into it at this point.

So the reason they disowned me in 2007 was that I came out publicly in favor of nuclear energy at that time. It was because I had made a serious mistake personally in the early years of Greenpeace by conflating nuclear weapons with nuclear energy out of fear of radiation. And even as a science student, I did that. It just goes to show you how you can be molded by the overwhelming force of social opinion on something. And so when I came out in favor of nuclear energy in *The Wall Street Journal* – "A Green Goes Nuclear" was the headline – Greenpeace took my name off the Founders of Greenpeace list on Greenpeace International's website. Thirty-six years after I helped start Greenpeace they said I was no longer a founder, even though they had been saying I was for 36 years.

That's why I put up a fight on that subject. I'm not going to let them memory-hole me or deep-six me. Historical revisionism is one of the greatest enemies of progress, because, as Orwell said, he who controls the past controls the present, and he who controls the present controls the future, or something along those lines, anyway. He was very prescient in his understanding that historical revisionism was one of the most retrograde aspects of human nature.

WOODS: On the subject of nuclear power, here you're dealing with an energy source that is clean as compared with the fossil fuels that not just the Greenpeace folks, but all the

Green New Deal folks likewise dislike. You can't make that complaint about nuclear power, so they try to say it's expensive or it's dangerous. What is your response to those claims?

MOORE: First, it's not expensive if you look at how reliable it is and how long these reactors can operate. The capital cost is high, but these reactors can live longer than gas plants and coal plants by two or three times. So the payback is there. And in addition to that, the danger part is all based on what they call nuclear waste, which we call used nuclear fuel. Some people call it spent nuclear fuel, but that is wrong because it is in no way spent. The used nuclear fuel still has 99 or at least 95 extractable percent of the energy that it had in the beginning, because you're burning the uranium-235. While the uranium-235 burns, it creates plutonium-239 from the bulk of the fuel, which is uranium-238.

The distinction here is between fissile and fertile. Uranium-235, which is only 0.7% of natural uranium, is the only natural fissile isotope on planet Earth. So you've got all this other uranium called uranium-238, which is not fissile, but it is fertile. And all the thorium in the world, which is much more abundant than uranium itself, is also fertile, which means it can be made into a fissile isotope in a nuclear reactor. In the case of thorium, it can be transmuted into uranium-233. So there is a vast store of future nuclear fuel. The Russians have already built two big nuclear reactors based on this principle. And in fact, the breeder reactor, as people know that term, is the same idea. It's called a fast neutron reactor. It is able to take the plutonium-239 that is automatically generated inside our existing conventional reactors and use it as fuel to make more plutonium-239 over and over again.

So what we should be doing with the U.S. nuclear fuel is not being afraid of it, but storing it carefully, nice and dry and temperature-controlled, for 200 or 300 years, until natural uranium – that is, uranium-235 – becomes scarce, and then we've got 10, 20, maybe 100,000 years' worth of nuclear energy into the future, long after the fossil fuels become scarce. So nuclear energy will be the primary energy source of the future once fossil fuels, which now provide over 80% of the world's energy, have been depleted.

WOODS: I want to say something that will seem shocking to some people, but I just don't know what other conclusion to draw. I know it's quite possible to be – maybe you might not even want to use the term “environmentalist” because of how it's been hijacked, but it's quite possible to be somebody who loves the outdoors, loves the natural world, wants to preserve it as best as possible, but still believes in human progress and thinks the two things can be reconciled.

But on the other hand, I have encountered on social media a group of people who call themselves anarcho-primitivists. This is a very, very small sliver of the environmentalist movement, but such minorities can have a voice way out of proportion to their small size.

And their idea is that the problems that we are experiencing, things like depression and drug abuse and despair and hopelessness and meaninglessness, derive from civilization itself. They say civilization was a mistake. They are not joking. We are not actually meant to live like this, they say, and we ought instead to prefer a civilization where we have destroyed industry, and we've gone back to a more direct relationship with nature and the land.

Now if they want to live like that, of course, I have no objection. Why not? Go ahead and live like that. But obviously on a large scale this would mean literally billions of deaths. There's absolutely no way around that. Every time I would point that out to them, they would just go silent. They wouldn't indignantly deny that this would be the result. They'd simply say nothing. Do you think there is any part of that influence, that of course in the press releases they want to pretend doesn't exist, but do you think there is that influence behind some environmental organizations, or am I exaggerating things?

MOORE: Tom, it's not as small a percentage as you think. This is basically the concept of rewilding, which was introduced by Friends of the Earth many years ago. It's the idea that we should turn the world back to wild nature and radically reduce the number of humans on the planet. I'm not sure how they think we're supposed to live or what sort of political system we'd be in or anything. It's all a lot of fantasy, as far as I'm concerned.

But when you take the fact that a majority of – and I don't call them environmentalists anymore; I usually use the word “green” in quotation marks. Using the word “green” to describe public policies is just so ridiculous. It has no technical or scientific meaning at all. So you can just use it willy-nilly as you would like.

So much of the left's terminology is in that category these days. They say, Well, you're not a climate scientist, and I'm thinking, what do you mean? I've got a PhD in ecology. I've studied climate for 40 years and I'm not a climate scientist? No, you're not. And what they mean is that I don't agree with them when they say I'm not a climate scientist, because if I don't agree with them, I'm a climate denier. And so they've twisted the terminology in such a way that John Kerry has more credibility – he has as a Bachelor of Arts degree in political science or something – than my former chairman in the CO₂ Coalition, William Happer, who is physics professor emeritus, Princeton. He's not a climate scientist, apparently, even though he has studied atmospheric physics for most of his life. So this is what it comes down to in terms of arguing with these people.

But when you look at the fact that they don't support either nuclear energy or even hydro-electric energy, which is just making a lake and using the gravity to make electricity, one of the most benign and most abundant forms of renewable energy we have, certainly the largest form of renewable electricity we have – they're against it, too. Apparently they don't like to have more lakes, as if there are too many lakes and not enough valleys. As a matter

of fact, there's a huge abundance of valleys and not as many lakes, so making a few more lakes is probably just fine. Well, it is just fine. I shouldn't even say probably. But they're against that, too.

So they're against both of the large-scale, cost-effective, reliable technologies that could replace fossil fuels and at least for electricity production, which is about close to a third of the world's energy supply.

If they don't accept nuclear and hydro, then they are full of you know what, in their whole campaign, because if they want to get rid of fossil fuels, that would be the first and easiest way to take a big chunk of them out. Instead, they're trying to transform the whole of transportation into being run by batteries. I bet the farmers are really looking forward to battery-powered combines and giant tractors, and I bet the truck drivers are really looking forward to battery-driven semis to go on the interstate across the country, where you'd have to stop every five minutes to get new batteries. It's all just completely nuts.

WOODS: This is why I had to ask the question about anarchoprimitivism, or rewilding. Because what other explanation could there be for why you don't want nuclear power when it does solve at least a chunk of the problem that you claim is so serious?

But Ocasio-Cortez is implicitly posing the following question to people like you: I at least have some kind of proposal; where's yours? We need something big and bold, because warming is happening. Warming is caused by human activity in large measure. Something substantial has to be done really fast, and if not this, then what? How do you answer that?

MOORE: I say that if we were rational human beings, we would replace a considerable amount of the fossil fuels with other energy sources for the very purpose of preserving them for transportation for heavy transport, such as trucks and airplanes. Cars, maybe a lot of them, can become battery-driven, because they're small and they're light loads. But I don't really have much faith in that, either. So transport is where we need the oil and gas.

Coal is a different matter. It can be used to produce electricity very cost effectively, and now with the pollution control we have, cleanly. So there's still a big place for fossil fuels in energy production.

But all of the commercial shipping could be nuclear powered. The Russian icebreaker fleet is all nuclear. Five countries have nuclear ships in their navy, and lots of them, and submarines and surface vessels and big boats. So oil tankers could all be powered with nuclear reactors. And the type of people who come out of the nuclear navy are the ones who are running the hundred U.S. nuclear reactor fleet for civilian use for electricity. So the United

States could have 400 nuclear reactors instead of 100, and it would make a big dent in the consumption of fossil fuels. So that's a place where it could be used very effectively.

There are adjustments that could be made in hydroelectric, too. For example, in India the "green movement," in quotes, has stopped basically all the potential hydroelectric projects coming out of the Himalayas, where there are huge flows of water from annual snowmelt coming out of there and rainfall from the monsoons. And all of the interior of India could be irrigated with this water instead of pumping out precious groundwater. The floods could be prevented, which cause deaths by the hundreds in these kinds of flood-prone areas. And then you could make your electricity, and even though Modi has done a good job with coal and nuclear, of getting electricity to many more people than had it previously, the hydroelectric would solve that problem overnight and give the farmers twice the yield of agriculture, just like the Three Gorges Dam has done in China. So India would be a place where a billion people or so could get their electricity switched from coal and nuclear to hydroelectric, if the green movement wasn't in the way of it.

So there's a whole bunch of potential situations where we could make electricity production cheaper, and move away from being so reliant on fossil fuels and preserve them for the future. You can make liquid fuel out of coal. South Africans have been doing it for decades at Sasol. And with high-temperature nuclear reactors, you can make the production of liquid fuels from coal much more efficient, like three times as efficient. So there are all kinds of things to aim for in technology at a large scale like this, where, you know, the computers and the microchips and all that, that is not very much energy required, even though the big servers and the cloud and all that, they do eat up a bunch of electricity. But it's nothing compared to the bulk energy that's used particularly for transport and heating in the cold climates. There's a lot of energy that goes into that, and a lot of improvements could be made there with ground source heat pump technology, for example, which is an extremely efficient technology. There's so much to do and lots of time to do it. It's not going to end in 12 years, we have more than that, in order to get on the right path and move in the right direction.

WOODS: Can you just tell me quickly what is their stated reason for opposition to hydro and what's wrong with that stated reason?

MOORE: It floods the valley and destroys the ecosystem, except they forget to notice that it creates a new ecosystem called a lake, which can have fish in it and other things. They hate change. You see, this is the deal. Climate change is the thing that they're against. And of course, the climate is going to change whether they want it to or not. And it's completely pointless to be against climate change, but they are against climate change, because they want everything to stay the same.

Right now, the average temperature of the Earth is 60 degrees Fahrenheit, 15 degrees Celsius, just a little lower than that – is that the ideal temperature for Earth? We can't even live at that temperature unless we have fire, shelter, and clothing. We would die at 15 degrees Celsius. As a matter of fact, a human being in the shade will die of hypothermia at 20 degrees Celsius, that is, close to 70 degrees Fahrenheit, if you don't have any clothing, fire, or shelter to protect you, because our bodies are 98.6 Fahrenheit, 37 centigrade inside, and when we're in a temperature that is colder than that, we lose heat. And you have long as you eat lots, you can stand to be in a temperature that's lower than your internal body temperature, but at a certain point, you lose more heat than you gain from the food you eat, and you die from hypothermia.

And people just don't seem to have a sense of the fact that we are living now in one of the coldest periods in Earth's history. This is called the Pleistocene ice age, and thankfully the last 10,000 years have been one of many interglacial periods, whereas the glacial periods last much longer than that. They last for 50,000 years, as we gradually go into them, which we've started doing now. The Holocene interglacial period is now cooling, on average. We're in a warming blip in the last 300 years, which is a blink in nature's eye. But by and large, the last 5,000 years have been slightly cooling, and if all goes according to the last 2.5 million years of this Pleistocene ice age, we are beginning the 80,000-year descent into the peak of the next glaciation, and then we'll come out of it again. (But we won't be here to come out of that, of course.)

But people don't have this long-term view of climate history, which is there for them to see on the Internet in scads of graphs and information. The Vostok ice cores go back 400,000 years. The European ice cores go back 800,000 years, and the marine sediments go back 500 to 600 million years, where we can see what the climate of the Earth was like in the past.

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Chapter 5

The Green New Deal Is Insane

With Alex Epstein

Alex Epstein is the founder and president of the Center for Industrial Progress, and the author of *The Moral Case for Fossil Fuels*. This chapter is drawn from episode 1327 of the Tom Woods Show.

WOODS: ...If there were an asteroid coming to earth, and you were saying, “You know, I think the minimum wage should be \$27 an hour,” we would think you were a lunatic. How can you even think about the minimum wage when there’s an asteroid coming?

EPSTEIN: Yeah, whenever somebody talks about a problem and they’re in a position of having political power or seeking political power, there’s always the question of: are they really concerned about the problem and the most efficient way of solving it, or is the problem for them a solution to their desire to have more power? And for the test that you applied, which is a focus test – are they actually focused on the most existentially threatening problem in their own view – that’s a good test.

My own test for the energy and climate stuff in particular is: do you avidly support the decriminalization of nuclear power? Because if you believe that nuclear power – the most scalable form of non-carbon power – should be banned, then clearly you’re not serious. And it’s probably a surprise to nobody that Alexandria Ocasio-Cortez and the whole Green New Deal are advocates of not even just the criminalization, but the full banning of nuclear power in favor of solar and wind. That to me is just an instant reveal – if the other 80 things weren’t – that there’s a desire for power here, not to solve a specific problem.

WOODS: They will come back at you with stories about Three Mile Island, and leave the impression that nuclear power is unsafe. Further, they say, we don’t really know what to do with the waste. Those two points are how they plausibly claim that they really do care for human welfare: it’s supposedly because of that care that they don’t want nuclear power. Is there a good answer to that?

EPSTEIN: Well, yeah, the answer to that is to actually look at the nature of nuclear power and how safe it is, with the waste as one aspect of its safety. When you have a technology that’s been around for a while at any kind of scale – and with fossil fuels, nuclear, and hydro, we have that kind of data – we can look and see which technologies are the safest per unit of energy generated. Thus, per unit of energy generated, how many people die? And nuclear power is by far the safest. That’s just from the physics of it: nuclear power cannot explode as the other forms of energy can. Obviously fossil fuels can combust. Hydro can’t

explode in that way, but a dam can explode, which might be the most dangerous possibility of all. All these things are really good technology, so they shouldn't be banned for that reason, but it's particularly ridiculous that nuclear is singled out.

The hypothetical mechanism of its danger is harder to understand and has been misrepresented. A meltdown is represented as the scariest thing in the world. But in fact I'd rather be next to a facility that could melt down, which would give me days and days and days to react, as opposed to one that can explode, where I'd be dead immediately.

And then the nature of the waste: this is not anywhere near the most hazardous substance that we deal with. Without getting into all the specifics of the waste, the fact that we have been dealing with it for decades and decades and decades, and nobody is really having a problem, that's an indication that there is no fundamental safety problem. For anyone who's familiar with these issues, the alleged safety issue is just a rationalization for attacking nuclear power, which the green movement is against because A) it's a very effective source of industry, which they tend to be against, and B) it involves manipulating nature in a fundamental way, and the green movement is a deeply technophobic movement, despite its pretenses. That's a whole subject, but essentially their core idea is we shouldn't change nature. So they particularly object when we figure out how to change nature at fundamental levels.

WOODS: I'm looking at the plan. We won't go through all seven of their goals; I want to go through the key ones. But I can't help mentioning something right below the seven goals. It's frankly downright Soviet, the kind of language that we encounter in this plan. We read, "The plan for a Green New Deal shall recognize that a national, industrial, economic mobilization of this scope and scale is a historic opportunity to virtually eliminate poverty in the United States, and to make prosperity, wealth, and economic security available to everyone participating in the transformation." That's a bizarre statement.

So in other words, they believe we are facing an extraordinary world-historic emergency. Now you would think that in order to combat a problem of that scale we'll have to expend an enormous amount of resources, and we'll therefore have to be temporarily satisfied with a lower standard of living. Labor and capital will have to be diverted away from the satisfaction of consumer wants and toward projects designed simply to maintain civilization in existence.

But no: they're claiming that by expending all these resources we'll get richer!

So imagine, again, that an asteroid were hurling toward earth. Green New Dealers, by their logic, would have to say, "Preparing for the asteroid's impact is going to make us richer." And then let's say the asteroid just burned up in the atmosphere and the crisis passed.

To be consistent they'd have to be disappointed! As in, "Well, I guess we're going to be poorer now that we don't have to plan for the asteroid coming."

What is wrong with these people? We'll obviously be *richer* now that we don't have to expend all these resources on asteroid defense!

Anyway, let's go through some of these. It's hard to decide which one is the most ambitious, but the first goal is to "dramatically expand existing renewable power sources and deploy new production capacity with the goal of meeting 100% of national power demand through renewable sources." Now, remember, their target window here is to accomplish all these goals in ten years. Can you comment on the plausibility of that particular goal?

EPSTEIN: Sure. So what do we know from experience, when you mandate one technology in a field and you ban the others? Let's say in the realm of building, we mandated renewable wood. We say every building has to be wood. Well, what's going to happen is that you lose out on all the situations where much better materials would be the solution. And you can often be stuck with something really bad, like skyscrapers made out of wood. Probably not a good idea, all sorts of fire hazards.

The status of solar and wind right now is pretty comparable to the status of wood as a building material. In fact, it's much less often the best solution, because it has this fundamental drawback of what's called the intermittency problem. Because the sun and the wind are not available most of the time, and because when they are available they're available very erratically, they have to depend on basically 100% life support from a reliable energy system, usually coming from fossil fuels. And then you're paying for the reliable energy system, the unreliable energy system, and then you're using the reliable energy system inefficiently, because you're basically running it like stop-and-go traffic. You're constantly adjusting your burning of the fossil fuels up and down to account for the erratic production of the wind and solar.

It's a complete mess. Everywhere this is used, it dramatically increases prices. In Germany, you have around 5%, maybe a little less, of total energy coming from these sources, and yet your electricity prices for consumers are doubling. So in general it's a horrible idea to mandate any technology, let alone the worst technology – which has dramatically negative consequences on a small scale, let alone on the impossible scale demanded by the Green New Deal. There is no technological solution whereby solar and wind and batteries with those combined can deliver power to a modern economy. You're literally mandating something that is currently impossible and, even on a much smaller scale, incredibly destructive.

WOODS: Other goals include "eliminating greenhouse gas emissions from the manufacturing, agricultural, and other industries, including by investing in local scale agriculture

and communities across the country,” and “eliminating greenhouse gas emissions from, repairing and improving transportation and other infrastructure, and upgrading water infrastructure to ensure universal access to clean water.” When you hear that, what do you think?

EPSTEIN: Well, we’ll maybe just step back and think about what’s going on here, because what’s unique about the country we live in, at least in its founding, is that there’s this recognition that the way human beings should organize socially is that they should be free, which means that they should not coerce each other. They should live on the basis of voluntary interaction. And when they’re able to do that, all sorts of amazing things follow. But the core of it is that they are allowed to act on their own ideas, and then others are allowed to act on their ideas, and then we can interact when it makes sense and not interact when that makes sense. In general, that makes life go really, really well. Unfortunately, there is not much of a discussion of freedom as a principle of social organization today. And unfortunately, it’s not happening with the Republicans, and although I think the current administration has actually done, I think, its best things in energy, there’s not a pro-freedom discussion.

And the reason I’m bringing this up is that when problems occur, there’s no longer in people’s minds the possibility that the culprit could be a lack of freedom. It’s only that the problems are occurring because of a lack of sufficient control by a particular bunch of status-seeking political actors. The whole premise is that freedom is not a value, that freedom is inappropriate, that it’s unimportant, and thus, that anybody with any idea for how anybody else can improve has every right and even should be admired in terms of dictating everything in their lives. Because what you just read is really translated into: Ocasio-Cortez and others should be totalitarian. This is just a set of totalitarian rules, and it’s important to classify it that way.

So, yeah, some of these totalitarian rules are based on absurdity, and some of them could be accomplished, but would be costly. But the whole framework of this is: your life does not belong to you, it belongs to us, and we’re going to dictate all of these things. And my view is that when you have a serious problem, the totalitarian approach is not the way to approach it.

If you had a serious problem, let’s say, with CO₂ emissions, you would want to find a pro-freedom approach to deal with it. I reject the whole premise that when we have a problem we should be looking toward this totalitarian solution. And of course when people do have a totalitarian solution, it will always be insanely irrational, because it is insanely irrational for any small group of people to try to dictate the actions of hundreds of millions of other people.

WOODS: Let's take these folks at their word. Let's assume that they truly believe that the situation is as catastrophic as they say. They'll say it's very sweet for Alex Epstein to tell us about how nice it would be to have non-coercive solutions, but when we fought the Nazis, we didn't have a non-coercive solution. We drafted people into that army, and we fought. Likewise, we're going to have to draft all our industrial resources and our people into this fight. What is the plausible alternative, they would say.

EPSTEIN: Well, with the freedom philosophy, the idea is that when you have problems that require government – I definitely believe those problems exist – you categorize those problems fundamentally as rights violations, that somebody is violating somebody else's rights. And there is at least a hypothetical possibility of these kinds of collective or aggregate rights violations, that is, where individual actions may not amount to much taken by themselves, but in the aggregate there's some sort of big shared risk.

This would be how climate-change activists would describe the situation with CO₂ levels, that CO₂ levels at a certain level are dangerous for everybody. But then the focus should be: how do we deal with that, while also dealing with every other aspect of human flourishing? Lowering CO₂ levels is not an end in itself; it's at best a means to the end of human beings having better lives. Human beings having a better lives in all these different areas requires a whole lot of freedom of thought and freedom of action, so that we can be really productive.

So the key would just be to figure out: how do you isolate the CO₂ issue as a rights violation and have the government in some way restrict that, while not completely destroying or getting involved in everything else? Depending on how serious it was, you'd have to think of different things. But what you would need to happen, really, in terms of results is the emergence of a low-cost source of non-carbon energy. That's the only way you would really do it. And the biggest potential there is nuclear power, and that's of course the one that these totalitarian green movement people are against. The key thing is that you'd want to set it up in a way where free minds could pursue the absolute best non-carbon courses of action, because that's the key to reducing anything, and also having human flourishing. Instead, they're forbidding people from pursuing nuclear power, and then they're mandating that they pursue this green power. So you do not want a totalitarian mindset when you have these big problems.

WOODS: Another one of the features they've got here is "funding massive investment in the drawdown of greenhouse gases." Do you know what they're talking about there?

EPSTEIN: It's too ambiguous, because it could mean a bunch of things. When you're talking about greenhouse gases, you can talk about reducing their production, or then you could talk about somehow capturing them in the atmosphere. So "drawdown" is ambigu-

ous, and it could refer to either of these things.

I just want to point out how insane this is – “insane” is too charitable – but there’s no recognition of the value of energy to human life in this, or the fact that you have billions of people in the world who have almost no energy right now (that itself is a crisis), and that’s part of the broader, still-present crisis of poverty that capitalism, to the extent it exists, is alleviating. There’s no recognition of the value of energy, and then there’s no recognition of the value of nuclear power or the challenges that exist with these intermittent forms of energy. I just want to make clear: these have never worked, as in they have never worked, ever, in terms of providing people cheap, plentiful, reliable energy. And they’re not particularly even promising in that. But it’s really, really bad even to mandate 70 years in the future something that has never worked, but to talk about mandating it for 10 years in the future – it’s so homicidal that nobody can take it seriously. It almost has that protection, that it’s so insane that people can just say, “Oh, well, your heart’s in the right place, but it’s not practical.” From my perspective, taking away people’s energy is not having your heart in the right place.

WOODS: Well, I guess we need to say something about the elephant in the room here, because what they’re all going to come back with is: climate change, climate change, climate change. They’ve made clear what the range of allowable opinion on that is, so if you even hesitate in supporting a radical program like this, they’re probably inclined to call you a so-called “climate denier.” They have a whole Orwellian apparatus of language prepared to be used against you. Tell me the way you think about climate change, about the problem that we face to the extent there is one, and what should be done about it, to the extent that anything should be done about it.

EPSTEIN: The concern is that there’s this ubiquitous product in our civilization, namely fossil fuel energy, and it’s potentially having significant negative impacts on our environment. People are concerned about rising CO₂ levels from CO₂ emissions from that form of energy. That’s certainly a legitimate thing to investigate, particularly because, in a laboratory at least, increasing the CO₂ level leads to a certain amount of warming – although, importantly, it leads to a declining level of warming. That is, each molecule of CO₂ warms less than the last. So it’s a legitimate thing to explore this.

But then if you’re exploring it, and you’re exploring different policies to deal with it, you need to recognize that the various policies are going to have two major effects. One is that they are going to affect the amount of energy that’s available in the world, and the other is that they’re going to affect the amount of CO₂ that exists in the atmosphere.

I think anyone who’s concerned at all about CO₂ emissions would say: we want policies that increase the amount of energy available and that decrease the amount of CO₂ in the

atmosphere. So I think it's important to think in this way, even if you don't think CO₂ is that big a deal. (I don't personally think it's that big a deal.) That should be the kind of priority, and that's why I keep going back to nuclear. If you're serious about this, then nuclear power should be fundamentally exciting. And there aren't that many fundamentally exciting things, because we don't have that many even plausible ways of generating energy. So that's how I think of the policy piece of it.

Morally, I integrate all of this stuff – whether it's energy availability or CO₂ levels – under the perspective of human flourishing. So the question is: how do fossil fuels affect the amount of energy available, how do they affect CO₂, and then how does all of that put together affect human flourishing? And the short version of it is that people dramatically underestimate the value of energy availability, energy being cheap, plentiful, and reliable – that makes every industry more productive. That makes every human being more empowered. It's so fundamentally valuable to quality of life that people don't appreciate the degree of it. And it's particularly important and neglected with regard to environment, because having a lot of energy allows us to take a naturally hostile environment and make it a lot more friendly. And in the realm of climate, it allows us to take a naturally dangerous climate and make it far safer. So when we're looking at the impacts of fossil fuels, we don't just look at the impacts of CO₂ on the livability of our climate; we have to look at the impact of having a lot more energy on the livability of our climate.

I argue in *The Moral Case for Fossil Fuels* that climate actually becomes safer and safer as we use more fossil fuels. As we make more energy available, and we increase the amount of CO₂ in the atmosphere, over time there's a dramatic trend toward climate becoming safer. The reason is simply that having a lot of energy is so important to the livability of the climate. The impact of CO₂ on the climate is real to some extent, but it's pretty insignificant. It's sort of like discovering a cure to a disease: if the cure makes the disease 10% more prevalent or even 50% more prevalent, but you can cure it, then that's great. You still want the cure. And energy is a large part of the cure to climate danger.

Even if we are making the climate slightly more hostile with CO₂ – and I don't think that's provable, but even if we are – our ability to master the climate, natural or manmade changes, thanks to the energy supplied by fossil fuels is so great that it completely overwhelms it. My view is that, if you care about climate livability – and that's what I care about from a human flourishing perspective – you should want us to be producing more and more energy from fossil fuels. So climate change can be real, but it can still be insignificant in comparison to the benefits of fossil fuels.

One great statistic to look at just for climate, leaving aside all the other benefits of fossil fuels, is climate-related deaths. I was introduced to this by the writings of Indur Goklany from the Cato Institute; the real source is what's called the International Disaster Database.

We've mined it probably more extensively than anyone has, and you see in the book that since these statistics began to be collected, the numbers have just plummeted. We're 98% below where we were in the '30s. You're talking 30,000 people compared to millions in the '30s with a much smaller population.

WOODS: What are examples of climate-related deaths that we had so many of in the past?

EPSTEIN: Well, it's the whole gamut of things that you hear blamed on climate change – there's a whole discussion about why that's really a manipulative term – but blamed on fossil fuel use, ultimately: drought, flood, extreme heat, extreme cold. Drought is interesting because it turns out to be by far the biggest. It's relevant certainly in California this year, where we supposedly have the worst drought in history. One interesting fact is that the rate of drought-related death has decreased even more quickly than the others – something like 99.98%.

You can't think of climate danger as just what nature does. Climate danger is a function of interaction between what nature does and what human beings can do. And it turns out that the natural climate is inherently variable, it's inherently volatile, and it's inherently vicious. So that's a constant. Climate is a huge problem that we have to deal with as human beings in any era, whether we have fossil fuels or not, and energy allows us to master that. In the case of drought, through technology we're progressively redefining drought or almost making it nonexistent in many ways. Once you have irrigation technology, once you have drought relief, once you have crop transport, once you have modern agriculture, drought becomes progressively a nonissue in human life. As a friend of mine put it: drought used to mean I die. Now it means the price of strawberries goes up by \$1.

WOODS: This is largely what you're driving at in your chapter on the energy effect and climate mastery: that the energy we get from fossil fuels helps us to cope with various aspects of climate that have plagued human beings from time immemorial, and it's precisely fossil fuels that allow us to cope with these acts of nature that we once assumed were unstoppable or whose consequences we thought were unstoppable. It turns out they're not.

EPSTEIN: Yeah. I like the analogy of antibiotics and disease, although I think the case for fossil fuels is even stronger than that. The starting point for thinking about antibiotics is, you have these certain categories of diseases that are going to kill you, and you need a way of dealing with them. Suppose the antibiotics create a 5% disease multiplication, which these kinds of things can do in complex systems. Would you say we therefore shouldn't use antibiotics? Of course not. You say: let's use this kind of technology both to cure all the natural diseases and then any diseases that emerge as we're trying to solve the first problem. Overall you're going to be much, much better.

The same goes for climate. Climate is hugely unfavorable by the standard of the kinds of lives we want to live and the rates of survival we want to have. If you want to have a good chance at having the majority of the kids in your family living – which historically is very difficult to do, you want to live with your friends into 30s, 40s, 50s, 60s; this is not something that nature provides for us. You can think of every environment in terms of resources and threats. The natural climate doesn't provide us enough resources in terms of the reliable weather and the reliable water that can guarantee bumper crop years, and it carries lots of threats that we can't naturally deal with.

So climate is fundamentally a problem to solve, and fossil fuels are an essential part of the cure. Nature doesn't give us safe climate; we need to make the naturally dangerous climate safe. That's the baseline before worrying about whether are we making the natural climate a little bit more volatile. We have the safest climate in history, as anyone from 300 years ago could tell you, but we're terrified of climate in this very theoretical way, which has unfortunately led to some very bad policy.

When we discuss climate, we have to avoid at all costs what I call the perfect planet premise – that nature gives us a planet that's perfectly suitable to human life, and all we do is we plunder and pollute it. That's exactly the opposite of the truth.

What we have done as human beings is to engage, in a way, in climate change in the most profound sense: not in increasing the amount of CO₂ in the atmosphere from .03% to .04%, but by completely changing the effective climate that we live in. So when there's a rainstorm outside, the climate that you live in is completely different from the climate that is outside. The vast majority of us live in atmospheric surroundings that in no way resemble those of our ancestors even 10,000 years ago, because we've mastered the climate to where we choose when we want to go outside, and the vast majority of the time we're inside and insulated.

Even heating and air conditioning: it's no coincidence that we often see the fewest heat-related deaths in places like Florida and Arizona. Why is that? Because nature doesn't give us a safe climate we make dangerous; it gives us a dangerous climate we make safe.

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Chapter 6

How Higher Taxes on “the Rich” Make Society Poorer

Alexandria Ocasio-Cortez provoked quite a bit of discussion in 2018 when she suggested that a return to top marginal income tax rates of 70 percent and even higher was not only a good idea, but had actually worked really well in the past (the top rate, remember, had been 91 percent in the 1950s).

Consider this summary of the “high taxes made us better off” argument:

“In the 1950s and 1960s when the top tax rate was 70-92%, we laid the interstate system, built the Internet, put a man on the moon, defeated Communism, our education system was the envy of the world, our middle class thriving, our economy unparalleled. You want that back? Raise taxes on the rich.”

Later this year I’ll be releasing a free eBook on this and related issues, and you’ll find all the corroborating links in there.

But for now, my partial reply:

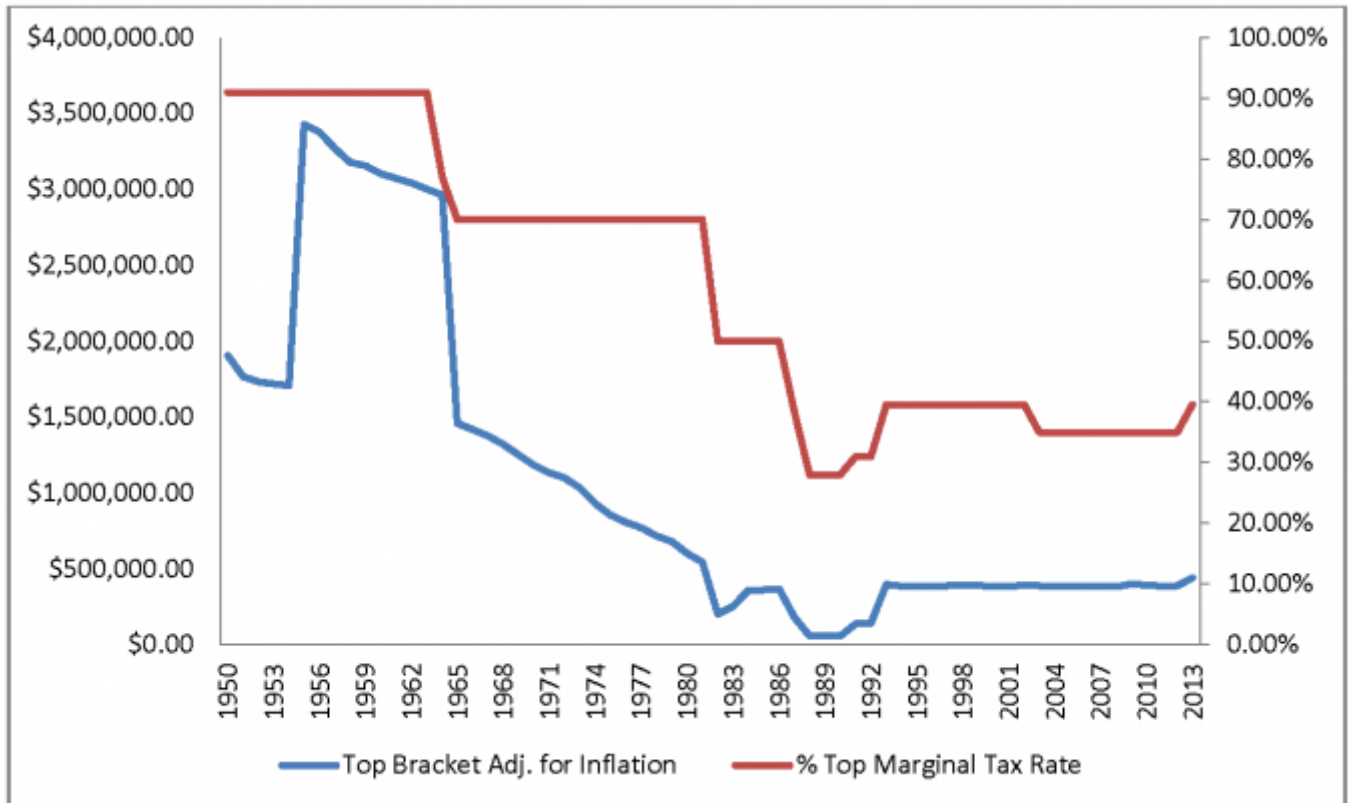
(1) Via loopholes or outright tax evasion, these tax rates were not paid (and in any case that rate applied to only 10,000 households in the entire country). Today these methods of avoiding the taxes are essentially unavailable. And for various reasons, as even Thomas Piketty concedes, the 91% top marginal rate on the books became an effective rate of only 31% in the 1960s.

When top marginal tax rates came down in the 1980s, the loopholes likewise disappeared.

If we really did return to top marginal rates of 70 percent or higher and did not reestablish the loopholes that existed alongside them, we would not be returning to a golden age, as AOC and her allies want us to believe. We would be in truly uncharted territory, with the federal government engaged in massive confiscation of wealth that would otherwise have gone to maintain or expand the country’s capital structure.

We’ll discuss capital a little later in this chapter, but for now I’ll just note that I have never once heard AOC mention capital goods and the role they play in improving our standard of living. If, as I fear is the case, she does not understand this relationship at all, she is a far more serious danger to American prosperity than we previously thought.

It's also worth noting that no matter what tax rate has been imposed on "the rich," total income tax receipts to the federal government as a percentage of GDP are essentially unchanged over the past 70 years:



Meanwhile, in 1980 the top one percent of American earners paid 15 percent of all income taxes. Nearly 40 years later – when the rich are supposedly paying next to no taxes – they now pay well over 30 percent.

(2) Big spending programs are not evidence of prosperity; the U.S. government could duplicate any of these programs today.

(3) Left out is that when our education system was supposedly "the envy of the world," it was spending far less per capita, adjusting for inflation, than it does today. From the early 1970s to 2003 alone, spending per capita doubled. So the Left has actually gotten its wish, though it pretends it hasn't. Meanwhile, Japan, spending one-third as much per capita, and with much larger class sizes, vastly outperforms the U.S.

There is no connection between higher education spending and higher SAT scores. In fact, some of the highest scores are earned in states that spend the least on education. Washing-

ton, D.C., which spends the most, is dead last.

(4) This one's a bit more technical, but for those of you with an economics background: the prosperity of the 1960s was fueled in good measure by the inflationary policies of the Federal Reserve. In John F. Kennedy's three years as president, M2 growth averaged about 8 percent per year, far higher than in the 1950s. This produces resource misallocation that can look like prosperity. This false prosperity is self-reversing. By 1970 – at the very moment that Arthur Okun, influential White House economist throughout the 1960s, was boasting that the business cycle had been tamed forever – the recession began.

Americans paid for that false prosperity with a decade of inflation and stagnation. As economist Mark Thornton points out, "From the beginning of 1946 to the beginning of 1965 the consumer price index increased by 71.4%, but then increased 20% by the end of the decade. From 1965 – when the experiment began in earnest – to the end of 1980 the CPI increased by 176.6%. The experiment had tripled the rate of inflation experienced by consumers."

For the full story of the 1970s disaster, see episode 568 of the Tom Woods Show:

<https://tomwoods.com/podcast/ep-568-why-were-the-1970s-so-bad-federal-reserve-im-looking-in-your-direction/>

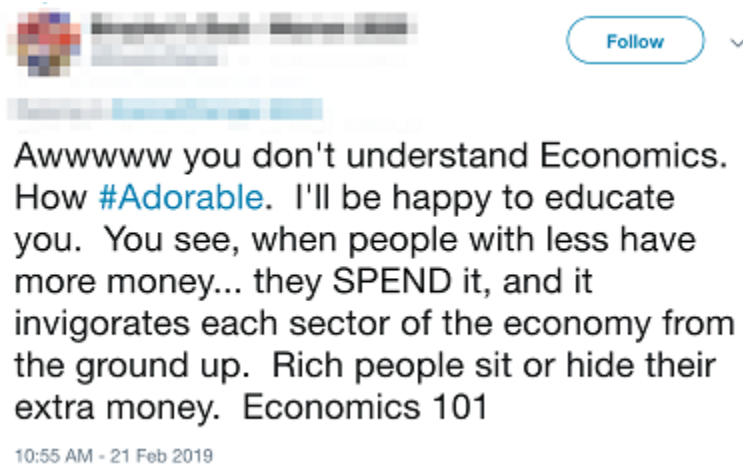
(5) John F. Kennedy used the economy of the 1950s against Vice President Richard Nixon in the election of 1960. Economic growth averaged 2.4% per year under Dwight Eisenhower – not a bad record, to be sure, but hardly the earth-shattering, historically unique figure one might expect in light of the constant references to the 1950s.

(6) It was not unthinkable in the 1950s that a family might not have a telephone, a refrigerator (some still had iceboxes), or a television. (Bearing in mind that Ralph was a cheap-skate, the Kramdens in *The Honeymooners* lacked all these things, and the program was not laughed out of court as silly or implausible.) Anyone wanting to live at that standard of living today can do so with precious little effort. Today, by contrast, 95% of Americans own cell phones, a technology that would have seemed out of science fiction in the 1950s.

So the boasting about the 1950s, when taxes (nominally, at least) on the rich were very high, is misplaced.

But now let's consider the economic argument against higher taxes on "the rich."

It's one thing not to know economics, but it's another to lecture the world while not know-



ing it.

Exhibit A: this Elizabeth Warren supporter on Twitter.

This is what the progressive left believes – and to add insult to injury, they think it’s “Economics 101.”

Seizing money from some people and handing it to others who are likely to spend it on consumer goods doesn’t “invigorate each sector of the economy from the ground up.” It just shuffles dollars around.

If employers are suddenly required to raise wages to an arbitrary level determined by politicians, they will have less money left over to buy the various inputs, or intermediate goods, that combine to produce their product – and that means less demand for labor, and therefore lower wages, in those lines of work.

Arbitrary wage increases also render firms less able to engage in capital investment, which is the only thing – the only thing – that makes society wealthier. (More on this later.)

The Tweet takes for granted that “consumption” is what an economy is all about: as if just using things up could make us rich.

This is a common misunderstanding. Many people believe that the economy is all about consumption, and moving dollar bills from one set of hands to another. So if we can “stimulate consumption,” we can really get things moving!

But “stimulating consumption” artificially diverts resources away from outlets where they

are performing critical services for the economy.

So:

Suppose we have a lucky unskilled laborer – lucky because the doubling of his wages via the #FightFor15 campaign did not force him out of a job through layoffs or through the suddenly hastened automation of his job, or did not force him to do extra work, or did not take away his fringe benefits, his breaks, etc.

And suppose this lucky laborer spends his extra income on consumption – which would delight the folks who think the economy is all about consumption.

Suppose further that we're so interested in promoting consumption that we establish a new rule: no doing anything with your paycheck except spend it on consumer goods.

That should get the economy moving, right! Those stupid rich people just save their money, but this working man will spend it, and that will create prosperity for all!

So here's what happens:

- (1) This lucky worker takes some of his extra pay and buys five gallons of milk.
- (2) The milk seller takes the money he earns from this sale and buys a new shirt.
- (3) The shirt seller takes the money from selling the shirt and buys a few gallons of gas.

And so on. Nothing is saved or productively expended. Everything is consumed.

This means:

- (1) No wages are paid (since making payroll is not consumption).
- (2) No business-related bills are paid (again, not consumption).
- (3) No intermediate goods are ordered by later-stage production (again, not consumption).
- (4) Capital goods, which make the economy more productive, are not purchased (since their purchase is not consumption). Existing capital goods are not maintained (since spend-

ing on their maintenance is not consumption), so they wear out.

The result of all this spending is: inventories of consumer goods dwindle, and, the gross saving necessary to keep the production structure up and running not having occurred, the productive capacity of the economy collapses.

There's your utopia of consumption.

This is why it's important to understand that rich people do not just "sit on" or "hide" their money. They are the people whose savings maintain and expand the capital structure – the array of goods that combine to produce the consumer goods we need – without which we would return to a hand-to-mouth existence.

Obviously, then, "the economy" is more than just money passing from hand to hand in exchange for consumer goods.

Labor plays an important role of its own, but labor unaided by capital equipment could perform only a tiny fraction of the work that labor aided by capital goods can. Imagine my father, who was a forklift operator for 15 years, trying to do his job without that forklift (which is a capital good).

In an economy lacking capital goods, you can protest your employer all you like but there is zero chance you will ever, ever earn \$15 per hour. The economy is not physically productive enough to generate that kind of abundance, and your unaided, bare-hands labor doesn't produce enough to make demanding a wage like that anything but a losing proposition.

When firms increase and improve the equipment and machinery at the disposal of workers, those workers' labor becomes more productive. Imagine someone producing books with modern equipment as opposed to a 16th-century printing press, or using a steam shovel instead of a regular shovel. The amount of production the economy is capable of is thereby increased, often dramatically, and this increase in production puts corresponding downward pressure on consumer prices (relative to wage rates).

There is nothing natural or inevitable about the availability of this productivity-enhancing capital equipment. It does not fall out of the sky. It comes from the capitalists' saving, and the allocation of the unconsumed resources toward capital investment.

This process is the only way the general standard of living can rise. Only in this way can the average laborer produce the tiniest fraction of what today he is accustomed to produc-

ing. It follows that only under these conditions can he expect to be able to consume the tiniest fraction of what today he is accustomed to consuming.

That's why, in order to earn the money necessary to acquire a wide range of necessities, far fewer labor hours are necessary today than in the past. Thanks to capital investment, which is what businesses engage in when their profits aren't seized from them and when savings are available to them to invest, our economy is far more physically productive than it used to be, and therefore consumer goods exist in far greater abundance and are correspondingly less dear than before.

In 1950, for example, Americans had to work six minutes to earn the money that would buy them a loaf of bread; by 1999 that was down to just three and a half minutes. To be able to buy a dozen oranges in 1950 took 21 minutes of labor. It was only nine minutes by 1999. Paying for 100 kilowatts of electricity required two hours of labor in 1950, but only 14 minutes in 1999. Someone in 1900 would have had to work nine hours, as compared with four hours in 1950, and three hours in 1999, to earn the money to buy a pair of jeans. For a three-pound chicken, it was 160 minutes in 1900, 71 in 1950, and 24 in 1999.

It was a lack of capital goods that accounts for why people were poor during the Industrial Revolution (even though, bad as their conditions were, they were actually much better off than people who had come before them). Many a junior-high school student has casually assumed that what those poor people needed was some government redistribution from the rich to the poor.

Talk about missing the point.

Suppose some catastrophe wiped out all capital equipment invented and developed over the past 150 years. Gone also are all automobiles and the knowledge to create new ones, fax machines, cellular and standard telephones, e-mail, the Internet, radio, and television. Many conveniences we take for granted no longer exist at all, and the vast majority of the remainder must be made either by hand or with the clumsiest and most inefficient machines.

Needless to say, this economy is capable of far less production than it was before the catastrophe. The productivity of labor has plummeted.

Does it not stand to reason that under these drastically changed circumstances we would all have to work much longer and harder to maintain even a minimally acceptable standard of living? Compared with today, the goods we need would be unusually scarce and expensive in terms of the labor time it took to earn the money to buy them. A great many consumers

chasing relatively few goods would inevitably produce high prices. Since the relative lack of capital equipment would mean a low productivity of labor, workers throughout the economy, as a matter of simple logic, would have to toil long and hard to produce the amount of consumer goods people wanted.

If we stubbornly insisted on maintaining a 40-hour work week even in the face of such changed conditions, we would not produce anything approaching the amount of consumer goods we once did, and the result would be still greater impoverishment. It is this simple fact of low worker productivity, rather than any sinister machinations of greedy businessmen, that would account for our low standard of living.

In effect, this is something like the real-life situation people faced in England during the early Industrial Revolution and, to a lesser but still considerable extent, the American economy in the latter half of the nineteenth century. The reason people back then could afford far fewer and considerably lower quality goods had something to do with the economy's inability to produce more. Critics seem to assume that feeding, clothing, and housing more and more people over time, and making possible a steadily rising life expectancy, is nothing too impressive, even though it had never been done in such a sustained and remarkable way anywhere in the world until the eighteenth century. No, these critics expect the increased population that capitalism makes possible to enjoy, right away, spacious and commodious homes, fine cuisine, and ample leisure time, and if people lack these things the only explanation can be that wicked businessmen are refusing to share them. That these things might not even exist in any great numbers is not even considered.

What, specifically, could have been done to improve this situation?

If goods could be provided in greater abundance, they would be less dear and more within reach of the ordinary consumer. How can goods be provided in greater abundance? By increasing the amount of output that each worker is able to produce. And that, in turn, can be accomplished through technological innovation and investment in capital goods. When capitalists reinvest their profits they can purchase steam shovels instead of hand shovels, computers rather than typewriters, copy machines rather than the labor of scribes. They can equip warehouses with forklifts, allowing a single worker to perform tasks that might well have required ten workers.

As a result of such investment, productivity and output are increased dramatically. The whole process is driven by the profit motive, which leads businessmen continually to search for new and improved products and to cut costs in order to earn premium profits. Competition then serves to pass the quality improvements and cost cuts on to consumers, who obtain progressively more and better products at lower and lower real prices.

Raising taxes on the highest incomes therefore sabotages the process by which everyone in society sees his purchasing power rise. It is these high incomes that so much saving – which funds the investment in capital goods – comes from. Diverting these funds into arbitrary, politically determined consumption projects undermines the engine of wealth creation that improves everyone’s standard of living.

It does not matter that the politicians involved claim to have good intentions. These do not excuse their ignorance. And after all, we know what paves the road to hell.

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Chapter 7

Do Lower Tax Rates on the Rich Harm the Economy?

With Robert P. Murphy

Related to the strange claim that high marginal income tax rates are economically beneficial is the related claim that lowering the top marginal tax rates actually leads to bad economic times. There is nothing to this claim, needless to say, and in this discussion economist Bob Murphy and I review the so-called evidence for it.

Bob holds a Ph.D. in economics from New York University, is the author of many books, and blogs at Free Advice. This chapter is drawn from episode 331 of the Tom Woods Show.

WOODS: There's a graphic circulating around social media called "A Lesson in Economic History," drawn from some things left-wing radio host Thom Hartmann said. Let me read it to everybody in its entirety, and then we'll just go point by point.

"In 1922, Republican Warren Harding dropped the top tax rate from 73% down to 25%. It kicked off a gambling, real estate, and stock market bubble that burst in 1929. Roosevelt fixed that by raising the top tax rate on the uber rich back up to over 90%. The economy boomed, and the middle class prospered.

"Regan dropped the top tax rate down to 28%, leading within a year to the worst recession since the Great Depression, followed by the Savings and Loan crisis. Clinton took the top income tax rate back up to 39%, and the economy boomed.

"Bush Jr. came in to office, cut it back down, and then we got another crash and high unemployment."

All right, Bob. We can go through each one of these point by point – and we should – but first, what could be the economic theory behind the proposition that things boom when taxes are high on "the rich," but when taxes all are low on the "rich," you get economic crashes and Savings and Loan crises?

MURPHY: He doesn't give any kind of theory. You get a little hint when it kicked off at gambling, real estate, and stock market bubble. I think if you did want to come up with some sort of theory to explain the correlation he claims to have discovered between tax rates and prosperity, it would be that if you have too low of an income tax rate, then rich

people go out and start spending money, and gambling, and investing, and they thereby blow up economic bubbles.

WOODS: Right. If there is a philosophy behind it – and I think we’re dignifying this tissue of absurdities even to look for one – I think it’s basically that.

Now, let’s go point by point.

Hartmann says, “Warren Harding dropped the top tax rate from 73% to 25% in the year 1922” — okay, that’s wrong, but you can give the details — and then, “It kicked off a gambling, real estate, and stock market bubble that burst in 1929.” Notice there’s an actor left out of that story, oddly enough!

MURPHY: You think the central bank might have something to do with the economy?

WOODS: I am thinking it might have a teensy weensy bit to do with it. But based on this summary by Thom Hartmann the Federal Reserve has no apparent role in the economy, at least not one that’s worth mentioning.

MURPHY: I think the most important thing for us to mention involves the Fed. Even supply-side economists fall into this trap as well, where they just focus on the top marginal income tax rate. They have a huge blind spot. Even free-market economists of the Chicago School did not see what was coming in the late 1920s, whereas Ludwig von Mises and F.A. Hayek (of the Austrian School) certainly did. It’s because of what you just mentioned: the Austrians realizing that it’s artificially low interest rates that spur big bubbles as opposed to, I guess, in Hartmann’s view, artificially low tax rates.

WOODS: So now let’s go back to 1922 with Harding lowering top marginal tax rates from 73% to 25%. What’s the actual truth to that?

MURPHY: A lot of people have assumed that Hartmann’s numbers were right, and focused entirely on his crazy interpretations and lack of theory. But his numbers are all wrong also.

So for that one, the top tax rate didn’t go to 25% in ’22. It started gradually being reduced, but the tax reduction took place mostly under Calvin Coolidge’s administration, and didn’t reach 25% until the year 1925. So he could tweak his story a little bit, but right off the bat this thing is chock full of simple, demonstrable, historical error, and that makes it annoying that all these people are sharing it. And I guess they either don’t know, or they don’t care.

WOODS: And as with your critique of Piketty, it's not that this particular thing completely demolishes him in and of itself, but it makes you suspect that maybe he's sloppy with facts.

Let's go to the next thing. "Roosevelt," meaning FDR, "fixed that by raising the top rate on the uber-rich back up to over 90%, and the economy boomed, and the middle class prospered." What was your response to that?

MURPHY: I am glad you brought up the Piketty example because this is the same thing here: in the progressive narrative they conveniently overlook the fact that the top income tax rate was jacked up in 1932, under Herbert Hoover, back up to 63%.

WOODS: So let's recap: we're supposed to believe that high marginal income tax rates on the rich give us prosperity, and lower ones cause problems. Yet when Hoover jacked up rates very significantly and suddenly in 1932, all we got was a worsening of the Depression. No wonder they leave that small detail out! And then FDR raises tax rates on the rich, and unemployment remains in the double digits for the entire 1930s – also not compatible with the story Hartmann wants to tell, and therefore also left out.

Hartmann then speaks about Reagan lowering the top income tax rate to 28% and Clinton raising it to 39%, and he attributes the prosperity of the '90s to that – to that 11 percentage point increase. Now again, look at what happened when Hoover got into office. He took the top marginal rate from 25% to 63% – a vastly greater increase than the 11-point difference between Reagan and Clinton. So why didn't *Herbert Hoover* usher in the great prosperity, if Hartmann's story is correct?

MURPHY: Exactly. The year 1933 should have been utopia in terms of economic history, and yet it was, depending on the metrics you use, the worst year of the Great Depression. And as far as Reagan, Hartmann says, "Reagan dropped the top tax rate down to 28%, leading within a year to the worst recession since the Great Depression, followed by the S&L crisis." So clearly he means Reagan dropped the top income tax rate 20 percentage points when he was first elected.

Hartmann is here clearly referring to the early '80s recessions, but he's wrong. If you look at the actual tax history, the top rate did not go down to 28% until 1988. And when those bad recessions happened, the top tax rate was either 70% or 50%, depending on the time you want to use – which was much higher than the 39% under Clinton that was supposed to have given us a golden era. So, again, his history is just flat-out wrong.

See, it's not a random mistake there. He had to know the top tax rate was 28% only in 1988. It's not that when you come out of the womb, you know Ronald Reagan cut the top

tax rate to 28%. Hartmann had to go look that up. So he clearly had the data in front of him. There's one of two possibilities. He had the numbers and the dates right in front of him and just flat-out lied, or he looked them up at some point in the past, and then when he came up with these talking points, he didn't bother to go check it. He was just walking around saying: I know there was an awful recession under Reagan, and I know at some point he cut the top marginal income tax rate to 28%. I am just going to assume that it happened within the same 12 months, and there's no reason to look it up – why would I have to be accurate in my history when we're just talking about the economic policies of the country?

WOODS: Let's back up, by the way. When we talk about the Federal Reserve as maybe having a teensy-weensy bit to do with any of this, I explain the process in my book *Melt-down*, which spent 10 weeks on the *New York Times* bestseller list after the 2008 crisis hit. And of all my public speaking events, one of my favorite is from the University of Colorado at Boulder, when I spoke to a packed auditorium, which included many Barack Obama supporters, and many of them told me I had really made them think, or indeed actually convinced them.

MURPHY: What's interesting is, if you hate rich people in the private sector and bankers and tycoons and stuff, well, a lot of Austro-libertarians would be totally in sync with you if you were talking through the mechanism of the Federal Reserve. But that's the one area that they don't hate rich people in the private sector.

WOODS: I want to read, if I may, a passage with regard to the Savings and Loan thing. This is from my book *Rollback*. Just to explain why it's a bit rich, if I may use that word, to claim that the Savings and Loan crisis occurred because tax rates came down. That doesn't even make sense, first of all.

This is actually what happened. These Savings and Loan institutions were giving out mortgage loans, and they got hit very, very hard in the '80s, and wound up being bailed out.

So here's what I wrote. "First, so-called deregulation of the S&Ls began under Jimmy Carter, not Reagan. I say so-called because as with most measures trumpeted as deregulation, it was not really deregulation. All throughout the process of alleged deregulation, the S&Ls' deposits continued to be covered under government deposit insurance. "Deregulation means the removal of government involvement and control. Does this sound like the removal of government involvement and control? To the contrary, it gave us the worst of both worlds. Now this government-guaranteed institution was permitted to take greater risks while taxpayers remained on the hook for any losses – not exactly the free market at work. Under the government-established rules, the S&Ls could charge 6% on 30-year mortgage loans and could offer depositors 3%. Since most depositors had nowhere

else to go, they had to content themselves with a mere 3% return. But with the advent of the money market mutual fund, ordinary people suddenly had the chance to earn higher returns than S&Ls could pay and began pulling their money out of S&Ls in droves. Consequently, the S&Ls wanted permission to offer higher interest returns for depositors.

“So ‘deregulation’ allowed them to do so. Had the original government requirements remained in place, the S&Ls would have gone under then and there. A consensus began to form that in order to save the S&Ls, their government-established loan and deposit interest rate requirements, as well as the kinds of loans they could make, had to be modified in light of the impossible conditions under which these institutions were then being forced to operate. The S&Ls needed to be permitted to engage in riskier investments than 30-year mortgages at 6%. Notice we’re supposed to believe it’s the free market’s fault when the government modifies the government-established rules of a government-established institution while deposits continue to be guaranteed by the government. Maybe the S&Ls should have gone under in 1980. Perhaps they really did have an impossible business model. There is no non-arbitrary basis for deciding one way or the other, since the S&Ls were never genuinely subject to a market test. The government husbanded and cartelized the S&Ls and stood ready to bail them out after that. Yet the string of failures continues to be blamed on deregulation and the market.” Do you think that’s about the summary of the story?

MURPHY: I think so. That was from *Rollback*, you said?

WOODS: Yeah.

MURPHY: Let me point out something else here, too. And it’s part of the narrative. Hartmann says that it was Harding — put a (sic) there because it was really Coolidge as well — cutting the top tax rates that caused the bubble in the 1920s, and that’s the reason there was a crash in 1929, right? Because it was a silly policy that supposedly fueled the bubble. But then when he’s talking about Clinton, he says Clinton took the top income rate to 39%, and the economy boomed. So he’s talking about the ’90s there. Those Clinton years are the period of the NASDAQ tech bubble and also the dot-com boom. So then why isn’t the Clinton bubble that then crashed Clinton’s fault? How come we don’t get mad at Clinton for fueling *that*?

Notice that even in terms of their own narrative it makes no sense that George W. Bush comes in and right away there’s crash on his watch. If you wanted to blame the *housing crash* on George W. Bush because of his deregulation, well, there’s at least a superficial plausibility there, and you would need to read *Meltdown* by Tom Woods to figure out why that’s wrong, but here, even on Hartmann’s own terms, that makes no sense. *Nothing had yet changed between Clinton and Bush, and right away there’s a crash.* There’s no way to give a cause and effect there within this guy’s worldview. But if he’s not even constrained by when the dates of

things happened, clearly, he's not going to worry about overall meta-logical consistency.

WOODS: That's certainly true. Also, how far down did he push it? Didn't he just push it down to like 35% or something? It was not a substantial cut at all. Certainly not enough – you're going to claim *that's* what caused the bad economy under Bush, the top marginal tax rate coming down a few percentage points? Who could believe that? Again, with the tax rate going from 25% to 63% under Hoover — a vastly greater difference, and one that according to Hartmann should have made the economy boom – the economy got even worse. How can they attribute the economy under Bush going in the dumps to a difference of four percentage points?

And you're right: there is no mention of the dot-com bust here at all, which went bust before George W. Bush even got in. It doesn't even exist because they can't account for it. It arose after taxes on the rich had been *raised* – and we're supposed to believe that great things happen when taxes on the rich are raised.

Again, where's the Federal Reserve in all of this? Not one word.

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Chapter 8

Should We Be Obsessed with “Inequality”?

With Leon Louw

Leon Louw is co-founder and executive director of the South Africa-based Free Market Foundation. This chapter is drawn from episode 876 of the Tom Woods Show.

WOODS: When we talk about inequality, do you take the approach that the source of that inequality can be benign or not benign?

LOUW: Well, I don't concern myself too much with that because many other people do. I try to deal with aspects that are largely neglected. But yes, of course, it can be benign. If somebody offers other people a job and as a result the person who takes the job becomes wealthier or poorer than the person who gives the job, either way there's no reason to believe that anything wrong has happened that has brought about that inequality. As Hayek pointed out, if every transaction that leads to a state of affairs is just, then the outcome must be considered just. No injustice is alleged by Thomas Piketty or Oxfam – they simply believe that an unequal outcome is by its nature somehow wrong and reprehensible and immoral without ever paying attention to how it came about.

However, let me say that their premise is nonsense. When you use the word inequality, there's an assumption econometricians have made, which is somewhat unfortunate, that the quantity of dollars determines the degree to which we regard people as equal. Well, let's just pause for a moment. An ugly, old, mentally retarded, sickly man and a gorgeous, young, attractive, brilliantly intelligent woman: under what conditions would you call them equal? You've given them each \$10. Are they equal? And the answer is of course that equality of condition or quality of life or lifestyle is a much, much more complicated thing than the quantity of dollars one has.

WOODS: Frankly, I just can't bring myself to care about inequality at all. It never occurs to me to think about people who have private jets and who live lifestyles that are completely alien to my own. It wouldn't occur to me to think about that, and if I did, I'd think, well, good for them. I would never tarry on that. I would never, ever think about it. And yet there are people apparently obsessed with it, and I don't think for good, healthy reasons. I just can't see that there's a good motive to be obsessed with this. It is incredibly juvenile to think that some people's riches are the cause of other people's poverty. So I really don't care. What matters to me is the immense progress we've made in improving the material condition of the least well off, and I think that's a point that you enjoy making.

LOUW: Oh, yes. The most astonishing rise in the living standards of the world's poorest

billions has occurred in the last generation. It's absolutely breathtaking. And not only that, but the closing of the gap between the rich and the poor has been also quite astounding as a result of two main causes, one of which I think you and I will both like. Technology has made it so that a poorer person has a much smaller gap in quality of life from the richer person than was the case 20, 30, 100 years ago.

And the other thing, which neither of us might like, is welfare. State welfare has brought about a huge level of equality of access to health care, education, infrastructure, and pensions, and so on and so forth.

So the world has become much, much more equal by every objective measure: the quantity of food people have, access to health care, literacy rates, life expectancy, etc. By every objective criterion, the world has become spectacularly more equal between so-called rich and poor, and poverty has been alleviated on an unimaginable scale. We have exceeded the very ambitious Millennium Development Goals.

Just to give one nice number everyone can relate to: in the 1970s, poverty was for the first time objectively defined as living on the equivalent of \$1 a day. Just short of a third of all of humanity were considered by that definition poor. If we inflation-adjust that dollar, today it is less than 5%. In other words, for practical purposes, poverty of the kind that we had 30, 40, 50 years ago, when the typical TV program had thousands and billions of starving people – literally views of human beings on a massive scale starving to death. Young people have never seen that, because it's vanished. It's disappeared from the planet virtually (though of course not entirely) completely.

So we have achieved the greatest level of equality and well-being for humanity that has ever occurred, and it was as little as a generation ago essentially inconceivable. So far from lamenting inequality, we should be celebrating the alleviation of destitution and poverty on a spectacular scale: a billion human beings rising from destitution.

Piketty and Oxfam – what I call Ox-scams, and I will justify that name if given the chance – are beating a drum. And you say, What are their motives? Well, it's a very good question. Their motive is straightforward. This is the new ideological frontier, and this is why I regard it as an issue that now needs most of the attention of intellectuals, especially those of us concerned about liberty and human freedom and human progress and human well-being.

But let me tell you how reprehensible are what I call the inequality junkies – Piketty and Oxfam being the two most famous, but of course there are many others. They observe a billion human beings rising from destitution. Nowhere in their literature, the 600 pages of Piketty or on the website of Oxfam, do they ask a very simple question: what was it that

led to this? If they are interested in poverty, will they start by saying: where poverty has been most alleviated, what happened, what brought this about? They have no interest in that question at all. On the contrary, were they to ask that question, they would find out that it is because of free-market policies, liberalization, privatization, reductions in government spending, reductions in the role of government, and liberation of markets. That does not interest them, because it runs contrary to their ideological bias. Oxfam has the temerity to tell countries of the world how to tax and how to distribute wealth, especially in countries where there is the least poverty, the countries to which the poorer of the world all want to migrate.

This is the latest ideological drum for opponents of liberty to beat. Until recently it was climate change. Before that it was old-fashioned debates: capitalism versus socialism. This is the new ideological frontier. They are lying about inequality, generating – I can't even call it exaggerations. It's simply twaddle. It is complete nonsense.

WOODS: I like your point about looking at quality of life rather than number of dollar bills when trying to understand what's really happening in the world. Because if a rich person starts off with a fancy car, and then 30 years later has an even fancier car, that's somewhat of an improvement. But – to borrow an expression from Peter Thiel – if we go from zero to one, if you have a person who goes from no car at all to any kind of car, that's an infinitely greater increase in his well-being, and that's what we're seeing. The rich, they have more of things that they already had. They have more entertainment. They can be transported around the world somewhat more luxuriously. But now, a lot of average people can be transported around the world *at all*. This is what's remarkable. Not that somebody has a yacht that he can land his plane on, but that most people in the world, or at least in the developed world, now have access to air transportation, things that would have been out of science fiction some years ago. So that's how we ought to be thinking about this.

LOUW: Of course we should. We should be realizing that the amenities of life, as I call them, the access to communications, motorized transport, food, crockery, cutlery, entertainment, television, has gone off like a rocket for the world's poorest people.

Take something very simple: the biggest sports event in the world, the World Cup final. I'm nearly 70. When I was a kid, the only people who could ever see a World Cup final were those who could afford to actually go to Wembley Stadium or wherever it was, and sit there.

WOODS: Exactly.

LOUW: We were talking about maybe 30- or 40-, or if you're very lucky and there was lots of standing room in those days, 50- or 60,000 human beings. Then came early television,

and a few people in a few countries who were wealthy could watch it. So now it went up to maybe a few hundred thousand or a few million. Today when the World Cup happens, over half of humanity watch it live in Technicolor for virtually free. They don't even have to go to Wembley Stadium or to Yankee Stadium or somewhere. So that's just sport and entertainment, that it has reached people who previously would have had to trouble across the planet to go and watch a World Cup final. Now everyone watches it live in Technicolor.

But take more: motorized transport. When I was a kid, only very, very wealthy people had a car. We didn't. We used buses and we used bicycles and we used horse carts. I was taken to school in a horse cart. And now, virtually all of humanity drives down the same road as Peter Thiel, who I know is one of your friends or colleagues, or Elon Musk or somebody, at about the same speed, gets to the destination in about the same time, but does so slightly less luxuriously.

This is everything you look at: access to electricity, access to information, access to literacy, access to banking and financial services, access to credit, and so on. Every single thing that determines quality of life has had not only an astounding growth for the world's masses, the poor, but has brought the poor increasingly close to the rich.

Probably most important of all is life expectancy. Since biblical times, the richest people lived for three score years and ten, 70 years. That's stayed the same. It's pretty much like that now, slightly more. It's gone up to maybe 80. Meanwhile, the poor who were living at something like 25, 30, 40 years life expectancy are now at 65. They're catching up. So the poor are now living as long as the rich. Now, what does that tell you? It tells you that they have safe water. They have sanitary living conditions. They have medical care. They have painkillers. They have antibiotics, etc.

So the poor are now closing the gap on the rich. Take you, for example, you and Peter Thiel. Peter Thiel (or Bill Gates or somebody) is much wealthier than you. How different really is their day-to-day life? You sit in a comfortable chair. You use a microwave. You use a good, quality mobile phone. You go to the same movies. You see the same world sporting events. Your quality of life has caught up, somebody with your income, with that of Bill Gates. And the laborer who cleans the street outside your building has caught up with you at an astounding rate. And so this idea that inequality is growing is just clearly and objectively nonsense. It is refuted by every objective index of the quality of life: square meters of housing, access to potable water, use of motorized transport, access to pensions, health care, and so on and so forth.

WOODS: All right, now let me play devil's advocate for a moment, and let's think about some of the numbers that are thrown around in the United States. And they will say that if we compare the salary earned by a CEO to that of, say, the janitor, we find that that has

gone from – I don't know what the numbers are, maybe from 40 to 1 in the past to 120 to 1 today. What kind of answer do you have for that?

LOUW: Well, firstly, let's understand that they are obviously lying about income and they're also looking at a number that is not a relevant one. The poor person now has welfare and pensions and savings, direct and indirect, and government welfare funding that must obviously be considered wealth. If you live in Germany, you have to be considered wealthy to the extent that you have an entitlement to housing and welfare and incomes and medical care and so on. Now, you might have zero income. I presume Linda Gates – I don't know, does she have zero income? Let's say for argument's sake she does. Does that make her poor?

So what they do when they talk about these income levels is play a number of trickery games. One, as Thomas Sowell points out, is that they refer to household income. And he says: whenever you see the term household income, be immediately suspicious. Why aren't they talking about personal or individual income? And the answer is as people get wealthier, fewer people live in a household. Children get their own apartments or houses. So although the wealth of individuals goes up, the income of the household might appear not to, or even to go down.

But the point you I think were getting at earlier, and I don't want to lose it, is that if you have 100 people all at \$100 or at \$0, you have total equality. If 10 of those people rise up to \$200 or \$300 or \$400 or \$500 and the people at the bottom are no worse off, there's no reason to be concerned about that. We should be pleased about that. We should be pleased that in India and China and Indonesia and Malaysia, billions of human beings rose from destitution. And one person rising from equal destitution brings about growing inequality. Well, of course. If some people are getting wealthier and they are doing no harm to those who are at the bottom, and in fact those people are also getting wealthier but at a different rate, that should be celebrated. What is happening in India and China or in the United States, for that matter – if the United States has more and more and more billionaires and the gap between more and more people rising compared to people rising more slowly grows, so what?

And bear in mind that the reason Donald Trump wants a wall – why? Because the poor of the world know that the best place to be poor is where the world's richest people are. The poor of the world will risk and often lose their lives to migrate to the place in the world where the most billionaires are. That's where they want to go. Nobody is trying to flee from South to North Korea. Nobody is trying to flee from America to Cuba. What you want to do if you're a poor person is to go where there are lots of rich people and where the so-called income gap is at its highest. The reason is that the potential for upward mobility is greatest under those conditions.

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Chapter 9

More Government Support for College Is the Last Thing We Need

With Bryan Caplan

Bryan Caplan holds a Ph.D. in economics from Princeton University and is a professor of economics at George Mason University. He is the author, among other books, of *The Case Against Education: Why the Education System Is a Waste of Time and Money*

This chapter takes direct aim at one of the principal pillars of the American civil religion, so be warned. It is drawn from episodes 1094 and 320 of the Tom Woods Show.

WOODS: I am a big fan of bold and blunt book titles, but *The Case Against Education* really takes the prize. Published by Princeton – no small feat, that. Not the first time you’ve managed that. But what I like about this book that it does not take the relatively easy way of saying: university or even high school education had noble beginnings and once had a noble purpose; if only we could past all the nonsense that’s crept in and get back to that! You have given yourself a much more difficult task, because you’re saying: I’m not even convinced by the original noble purpose of this.

CAPLAN: Yeah, the schools ain’t what they used to be and never were.

WOODS: And even if they could be, I wouldn’t want them. There’s a lot to talk about here. First of all, you’re basically going after the American church. The schools and the universities are the closest thing we have to an established religion in America. So you’re going to face the most pushback you’ve ever received, even more than when you said people should have more kids.

CAPLAN: At least so far, people have been cool to me, but of course even if you just look at the number or share of Americans who want to cut education spending, it’s almost nobody. And that is precisely the main policy prescription I’m offering: we need to have less education. So it is really running afoul of our secular religion. But honestly, those are the kinds of books I like to write. I like to write books where I think most people are wrong and they need to hear something else.

WOODS: I found even my own views being challenged in this book, and I felt like I was pretty hardcore on stuff like this. It turns out that education, as it’s carried out these days, in no way lives up to the almost messianic expectations people have for it. We’ve just come to accept, perhaps through intellectual laziness, that this is what happens to you for this number of years of your life. You sit in this regimented environment and people bark

things at you, and if you complain that this is boring or this is material you're never going to need or you're going to forget in two weeks, you're a philistine whose opinion isn't worth anything. What you're showing in the book is that this is precisely the case, that people do forget things, that it doesn't take root in them, but yet somehow we stick to this idea that they've got to conform to this ritual and they have to take things they have absolutely no interest in because we've decided they should.

CAPLAN: Well, it's a bit more complicated than that. The main thing I say is that employers do use your education as a signaling device, where they take a look at what your education is and they decide whether you're worthy of even receiving an interview, much less actually being offered employment. And the problem is that we are stuck in this equilibrium where if you were to say, "I'm not learning anything useful in school; I'm going to quit," the main result would just be employers saying, "Well, then I'm going to throw your application in the trash, so how do you like that?"

About a trillion dollars of government money is poured on the status quo every year, and yet if that were all that were going on but employers didn't care about it, then you could say, fine, waste the money but you're going to waste it without me in school; I'm just going to go get a job. In practice, it's really hard for people to get even a moderately good job if you don't go and accumulate the required or expected academic degrees.

WOODS: You give numerous examples of why this really is the case: that if you were heading to your final exam and you've accumulated all the knowledge, but you have an accident on the way and you miss the exam and the professor won't give you a makeup, so you don't get the degree, would you just say, "All right, at least I have the knowledge so I'll just move on," or wouldn't you matriculate for one more semester? Of course you would, to get that piece of paper.

CAPLAN: Yeah, that's right. And if you just go and look at the numbers, what's really striking is that so much of the payoff for education comes from the last year, from crossing the finish line. If the main thing that people were doing in school were learning useful skills, then it seems like every year should be about as good. If anything, it seems like senior year is generally goof-off year where you'd be getting less. So you wonder, then, why is senior year so important if there's nothing special in terms of the skills you're acquiring? And my answer is that in our society, people expect you to finish. We attach great significance to graduation. And so if a person says, "I don't care about it," they are sending a very bad signal of nonconformity, a signal that frightens employers, who may not want to hire a person who's that defiant, who's so disrespectful about the expectations of our society. And so it's very important for people to finish because if you don't, then you are voluntarily entering the pool of people who just defy the system. And who wants to hire them?

WOODS: You have a chapter where you go through quite an astonishing series of surveys

that purport to show how much people have learned, or how much the average American knows about the sciences or politics or history. And it is appalling. It's even worse than you think it is, because of course, as you say, given that a lot of these are multiple choice, you have to correct for the fact that 25% of the time they'll guess through dumb luck. In other words, the system that we have now is a failure by any conceivable standard. And yet there's no real call to account for this. It genuinely is, "We need more money." That is all they can think of. What other response is forthcoming about this?

CAPLAN: At least in literacy and numeracy, most people do have the knowledge.

WOODS: That's right.

CAPLAN: And if you were going to give the schools credit for that, then fine. They've achieved that for most people, although even on literacy and numeracy it's much worse than you would imagine. A good rule of thumb is the average college graduate is about as literate and numerate as you would mentally picture the average high school graduate. That's a pretty good way to think about it.

But for all the other subjects, that's where I totally sign on. Imagine assembling a list of the easiest, most basic questions you can imagine about U.S. history or government or science, and then give that test to adult Americans. They'll get about half of them right. And again, these are questions that are so basic that I would say this doesn't mean they are half scientifically literate; I would say that it means they just don't know the subject at all. In the same way that if you knew only half the letters in the alphabet, you're not half literate; you are illiterate. You lack half of the most basic understanding of what's going on, which means you can't make heads or tails about anything in the real world.

WOODS: What about people who say, "But imagine how much worse off they'd be if they didn't have our system"?

CAPLAN: It would be a matter of knowing next to nothing or nothing, and what's the difference?

My favorite example here is on foreign languages. I was able to put together a couple of different questions on the general survey to get an idea about how much foreign language fluency Americans say they acquire in school. This is self-reported, so of course people are going to overstate. The percentage of Americans claiming to have learned to speak a foreign language very well in school is under 1%. Under 1%. So I say: if all you're accomplishing with two or three years of foreign language instruction in high school is under 1% of Americans claiming to be learning to speak a foreign language very well, what's the point?

WOODS: I've actually come to rethink my own views on education. I see that there's some abstract value certainly for me in classical education, but I'm not getting why a third grader should be studying ancient Greek. If you're the sort of person who finds reading classical literature in the ancient languages to be extraordinarily rewarding, then you're the kind of person who can study that on your own. There's nobody stopping you. You have your whole life to do that. We're stuck in this mentality that if you're not learning in the setting of formal education, then it doesn't really count. And of course if you believe that this kind of knowledge will enrich you in non-pecuniary ways, then go ahead and do it. Knock yourself out.

CAPLAN: Yes, because until the Internet, there was always this story of look, never mind all this economics, education is good for the soul. And you say, yeah, well, but how many people actually are really interested in improving their souls – a very small number of people. Oh, yeah, but for the sake of that small number of people we need to spend a trillion dollars a year.

Anyway, however silly that is, it's ridiculous now because anyone who wants to spend their money can do so today for free all the time, endlessly. So what really goes in organized education is not people that are learning for the love of learning in order to expand their horizons. It's people who are punching a clock in order to get a credential to get a job. That is by far the most common thing that people are doing. Most college classes don't attend. If you take a look at the attendance in college classes, it's about 60% on a typical day, maybe 50% on Fridays.

Stephen Pinker was complaining about this at Harvard. These students have worked to death in order to get into Harvard, and what do they once they show up? Not go to class. (laughs) Why aren't they going to class? Because the main thing they care about is the grade, and as long as they can get good grades without going to class, the actual content of the course is of very low interest to them. That's the truth. And by the way, it is very rare that students who are not attending class are attending some other class instead. (laughs)

WOODS: Yeah, right. (laughs)

CAPLAN: The flip side of this is that even before the Internet, it was very unusual for colleges to make any effort to stop students who had not paid tuition from attending classes. In fact, if you are not a student at a university and you go and approach the professor and say, "I am really interested in the subject. May I sit in?" the professor gets a shocked look on his face, and then he gets a little tear in his eye and says, "You want to learn what I have to teach? This has never happened before."

So it is actually very easy for people to get very best education for free. Just go and move to Princeton or Cambridge, whatever school you think is best on the planet, and start attend-

ing classes. The odds that anyone will say to no to you and say, “Get out. No free learning for you,” is very slim. So why is it that hardly anybody does this? Of course, the answer is that at the end of four years of studying on your own initiative, there will be no record you ever went there, and you’re not going to get a job with that. And that’s really what almost everybody cares about.

WOODS: Exactly. The people who talk so much about the value of education – and I’m speaking here about the soccer moms, the average Joe on the street – themselves don’t even really seem to believe it. They talk all about the need to spend more on education, but in their private lives, now that they can get any classic work of philosophy, literature, anything, on the Internet, they are not reading any of it. They are reading some trashy paperback if they are reading anything at all. They have the chance to take courses at MIT for free. Are any of them doing it? No!

CAPLAN: Yeah, you are a very wise man, Thomas Woods.

What I say is, education does not have to be useful and it does not have to be inspiring, but it should be at least one. Either you should be learning something that you’re going to use in your future, or it should be something that enriches your life. But if it doesn’t accomplish either one, then why are you making kids do it, or why make adults do it? It’s very hard to understand what the point of it is.

WOODS: (laughs) In one of the early chapters you mention that you were going over people’s knowledge of algebra and how much they retain in five years and in 25 years. And if they went on to calculus, then very often they do remember all their algebra and geometry. I certainly do, because I teach it to my own kids now. But if I hadn’t gone on to those higher levels, maybe I would have forgotten it.

But could the counterargument to what you’re saying be that when you’re, let’s say, in junior high, there’s really no way to know what you’re going to do for a living, so isn’t it best just to give you that mathematical and scientific background just in case, so that you don’t get to be 18 years old, want to go into the sciences, and you don’t have any of the prerequisites and have to start from scratch?

CAPLAN: Well, it’s important to start with just base rates, like what fraction of people ever will use it. One of the fun things in that study of long-run retention of mathematical knowledge is that even out of the people who went on to calculus, I think only about 20% said they used algebra in their job.

WOODS: Wow.

CAPLAN: So I thought, “Oh, really?” I think about like people like my dad, who had a Ph.D. in engineering, but pretty quickly he was a manager and then he wasn’t actually using the math on the job to any significant extent. The main thing I would say is: your basic point is definitely right, that you should be leaving kids’ options open, but I say it’s a lot better to go and expose them to 10 likely or realistic options than to a bunch of options that almost no one actually pursues. So if a kid has been struggling in math in elementary school, the odds that he’s going to become a scientist or a mathematician is just phenomenally low. So better to go and expose him to 10 trades: here’s what being a plumber is like; here’s what being an electrician is like. That’s a much better way of proceeding. Of course you don’t know what a kid is going to like doing, but still you can focus on things that are plausible, things that are likely, and of course things where there are jobs – also very important.

WOODS: What’s interesting here is that despite the craziness of the system, there is an education premium that people who go through the system seem to enjoy, and this is touted as evidence that the system works. You go to college, you earn more money, or whatever the statistic used to be: you earn an extra million dollars over the course of your career or whatever it is. Skeptics have responded by saying that maybe the connection is reversed, that the sort of person who would be ambitious enough to work hard enough to earn that money is the sort of person who completes tasks and goes through school. At any rate, how do we account for this education premium?

CAPLAN: The quick answer is that it’s complicated. The longer answer is that some of the premium really does seem to be just what you’re saying. It’s actually a disguised reward for traits you would have had without school. There’s a whole body of work in which people try to compare apples and apples and find out, if there are two people with the same grades and the same SAT scores, and one goes to college and one doesn’t, what the earnings difference between those people is going to be. And that earnings difference is going to be a lot smaller than between the average college graduate and the average high school graduate. But still, after you peel off that part that education really doesn’t cause, there still is a substantial effect in almost every estimate.

And then I say it’s important to distinguish two different reasons that education might causally raise your earnings. One of them is this optimistic story that you’re actually learning useful skills, but the other one, as I said, is that you’re jumping through a bunch of hoops to impress employers. Selfishly speaking, it doesn’t really matter why the education is causing earnings to go up, but from a social point of view, it matters a lot. If kids are going to school learning useful skills, then at least they are producing the extra stuff that they are earning. But on the other hand, if you’re going there to get a bunch of stickers on your forehead, well, if everyone gets stickers on their forehead, then you need ever more stickers to impress employers. So it is a futile rat race, insofar as it’s raising your income by impressing employers.

And you can really see this in the real world, because researchers have been looking at how much education people in different occupations actually have over time. What's amazing is that if you look at one of the same occupations today compared to 1940, on average, you need about three more years of education to get that job, even though it's hard to see why you would need more education to actually do it. So this really fits the story of: the more education you have, the more employers expect, and if you don't go and get the extra education other people are getting, then you carry a major stigma. So think about how bad it would be to be a high school dropout today, when it's rare, compared to 1940 when it was really common. Employers couldn't afford to say "I don't consider high school dropouts" in the 1940s. Now it's pretty easy.

WOODS: That's the issue that an individual who reads your book and is convinced by it would be facing: that if all of society acknowledged your thesis and said that people are getting too many degrees, so let's all retreat by one degree on average, we'd probably all get the same compensation that we're getting now. But if it doesn't happen that way, and just a few people choose to acquire fewer years of superfluous education, those few people will suffer because they won't have the signaling, and won't have the degrees that employers are expecting now. Wouldn't all of society have to accept your thesis to really make any progress here?

CAPLAN: Fortunately not. Really, you just need a majority to go and vote for different education policies, because while there is this personal incentive to go, this incentive is greatly enhanced by about a trillion dollars of government money that's poured into the status quo every single year. There's a lot of work on how much the cost of college or the cost of school affects attendance. As you might expect, it matters a lot. So there's actually quite a bit of demand elasticity. Most of the people doing this research of course want to have government make school cheaper so that more people go, but I just repurpose this research and say fine, in that case, if we make school more expensive, then fewer people would go.

So if we were to cut out or reduce government subsidies or if we were to raise the interest rates on student loans up to market levels – there's lots of things that you could do, all of which according to the research would reduce the amount of education people want to get – which again, if you thought that school was basically a place where you get useful job skills, would be scary. It'd be like, well, then we're going to descale our whole work force. But if my story is right, what's going to happen is not that people are going to have a big fall in their skills – they won't, because they're not learning many skills in school – the main result is just that you can start your adult life earlier.

I would say that you should go and take a look at jobs that are well paid that don't require a lot of education. There are a bunch of jobs like this: plumbers, construction workers of certain kinds, electricians. There are actually a lot of jobs that don't require a lot of education that are well paid, and I'd say go and try to break into those fields as an apprentice.

That is going to give you a much better outcome on average than going and continuing to bang your head an academic wall where you've already got K-12, 13 years of experience showing that you really just don't like school and that you don't have an academic personality.

And there's no shame in that. To most people, this stuff is super-boring. And, of course, there's the added boredom of realizing you're never going to use this in whatever job you get with it.

So if it was my own child who were a C student, I would urge him to not go to a four-year college, urge him to not go to community college. Instead, I would try to help him to go and get an apprenticeship in one of a long list of well-paid jobs that don't require a lot of education, and just start working and get experience. You may say, well, that doesn't get me \$200,000 a year. If you were a C student, you don't have any likely ways of getting \$200,000 a year. I am just trying to tell you to make the most of what you got, and if you're a C student, trying to get a four-year degree is pretty hopeless, really.

WOODS: How do you answer people who would summarize your thesis by saying you just hate college?

CAPLAN: Personally, I feel great about it. I have a dream job for life. I'm a tenured professor. My life is wonderful. I can get paid a nice income to do whatever I feel like doing, really, to do what I love. So I don't have any negative feelings towards college. It's a fine place for me. I just think the taxpayers are getting ripped off, and I also know there are a lot of students whose time is being wasted – not that they won't go and get a better job, but they're bored, they're not happy, they're not interested in the material. So I think at least I ought to stand up and be a whistleblower and say, "Hey, people, this is a great deal for me, but it's not a great deal for you guys. I thought you ought to know."

WOODS: Let's talk about vocational training. There's a stigma attached to it. Because we've imbibed this idea of what education is, and we should be studying ancient Greek and everything, we look down on people who actually know how to do things. There's a disaster going on in the water system in your house. I don't know what to do about it, but that guy that I've been taught to disparage darn well knows. How does vocational training fit into the way you look at how the world ought to be?

CAPLAN: There's a good amount of research on vocational education. One result is that, just selfishly speaking, vocational education is underused. It seems like students are actually making a mistake. And even if you don't go work in the exact occupation you were trained in, still, it just acclimates you to employment. So that's good. There's quite a bit of research showing that vocational education leads to higher earnings and lower unemployment. So selfishly speaking, it just seems like we don't do enough of it. And again, especially of

course for kids who just hate school, kids who hate sitting in a classroom listening to some windbag talk, for them vocational education is especially good because they really just resent the regular kind so much that to do something else that works for them, at least that they might enjoy and be good at, is a great alternative.

But then I say it's even better from a social point of view, because if you're spending taxpayer money to teach people skills, that's much less wasteful than spending taxpayer money to have people put a bunch of stickers on their foreheads. You and I share a strong libertarian philosophical orientation, so again, I'm not actually endorsing government subsidies for vocational education so much as just saying, look, if government is going to spend the money, this is a much better way of spending it. I think that's a fair way of thinking about it.

You can look at countries like Germany and Switzerland where they have a much bigger role for vocational education. It's striking how there's very little underclass in those countries, and the people who would end up in the underclass here, when they're 13 or 14 or 15 are instead trained to be plumbers or carpenters at a German or Swiss level of skills. And then they're independent adults instead of being permanently unemployed or in jail. Seems like a huge improvement.

WOODS: I want to say a little something if we could about child labor, because this is a very sensitive term. "Child labor" evokes images of kids who are filthy working in factories in terrible conditions. I think even today that is what the term evokes. But secondly, there's a prejudice against it precisely because we believe that the correct way of going about it is that the kid sits in a classroom all day. So because dissent from that is blasphemy and because we associate child labor with primitive, backward laissez faire, well, it's unthinkable. But there are so many valuable things that kids could be doing and learning at reasonable ages that are simply foreclosed today.

CAPLAN: I have a section of the book called "In Praise of Child Labor," where I begin with a quotation from an economic historian who says, look, in the 19th century, people defended child labor in very much the same terms as we defend education today, saying, sure, the kid doesn't like it but it's good for his future. And everybody would say, the kid may not like the job, but you're preparing him for adult life. And if you say it's just terrible that you're depriving that kid of his childhood and kids should be running and playing, well, what do you think they're doing in classrooms? Are they running and playing in classrooms? No, they're sitting there, being bored, made to conform. So if you're willing to accept the idea that kids sometimes need to do things that aren't that fun for the benefit of their future, then I don't see what the problem with child labor is. And then I say obviously child labor provides a lot of useful training, just acclimating people to employment and teaching them how to deal with coworkers and customers and an employer, all great things for kids to learn. Of course, you can learn specific useful skills.

And then the double standard that we apply to kids having jobs versus schools is shocking. If someone does an unpaid internship, oh, that's so terrible, they're being exploited, they're working, they're not getting paid. Whereas if you go to school, of course, if you could do it for free, you would consider it fantastic. So it's okay for schools to charge you to train you, but employers, if they do it for free, then somehow they're ripping you off and that's bad.

Obviously there can be abuses with child labor, but there can be abuses with school. My mom went to an old-fashioned school in the '30s where the nuns whacked children with sticks. That doesn't mean all school is bad. What I say is, given that we rely upon parents to judge what's best for their kids in almost every other area – your parents can take you on a trip to the Congo, if they want. Your parents can skydive with you or mountain climbing. So if that's okay for parents to do, why isn't it just up to employers about whether or not a job is suitable for their kid?

WOODS: Given the educational options on the Internet – these are still classes in the mold of traditional education, but they can be delivered to you a lot more inexpensively – do you think that the system we have now is going to experience a major shake-up or major challenges, or is it so entrenched that it's not going anywhere?

CAPLAN: It's really entrenched. Online education is great, but it competes with blogs and podcasts; it doesn't compete with regular education. I've never heard of anyone who said, "I just went and got an online degree," or, "I just taught myself this stuff and then I was able to go and get a great job." Employers are nervous because: why didn't you go to a real college? Why did you try to take the easy way out? What's wrong with you?

One of the main things that education is signaling is your conformity. If you go and say, "Well, I'll go and signal my conformity in a brand-new, original, creative way," that doesn't signal conformity; that signals nonconformity. You're trying to weasel out of social expectations.

I love online education as a way for people to receive enlightenment, and a lot of that's going on, like right here on this podcast. You're spreading enlightenment and a little intellectual joy to your audience. But it's not reasonable to think this is going to lead to employment. Have you ever heard someone say, "I've listened to all your podcasts and I was able to get a job with that?"

WOODS: Yeah, that's true.

CAPLAN: Yeah, sounds pretty fanciful.

WOODS: [laughing] It does.

CAPLAN: Here's one case that is really striking. My colleagues Alex Tabarrok and Tyler Cowen have their own online university, Marginal Revolution University. I think they got about 10,000 people to sign up for their intro econ class, and then they offered a midterm. And how many people do you think actually took the midterm out of 10,000 students?

WOODS: Oh, I don't — ugh, tell me. How many?

CAPLAN: I think it was four.

WOODS: [laughing] That's even worse than I thought. I was thinking 50.

CAPLAN: It was a great product and a great class, great teachers, but these people viewed it as edutainment, not as an alternative way to be certified as an economist.

WOODS: Yeah, isn't that funny? Because I have LibertyClassroom.com, and the initial classes did have some quizzes and stuff like that. And then I realized nobody wants them. Almost nobody is interested in that. They feel like it's adult enrichment, something they can listen to while they're driving. But they're out of school now. The last thing in the world they want to do now is take a test.

CAPLAN: And yet if you go and read educational psychology, which I did very extensively for this book, you'll find that frequent quizzes are one of the best validated ways of actually causing learning.

WOODS: In my own case that is surely true.

CAPLAN: It's so easy to fool yourself into thinking you understand something until you actually go and sit by yourself with a piece of paper and try to answer some questions. And then you realize, oh, I only thought I understood. I'm not actually able to go and intelligently discuss this yet. I need to go back and think about it some more.

WOODS: What about the claim that one of the subsidiary benefits of education is either that it helps you to network or it helps younger kids to be socialized?

CAPLAN: The socializing part is absolutely true; it's just a compared-to-what question. If it's either go to school or play video games and you're home alone for 13 years, then sure, school is a much better way to get socialized. On the other hand, if it's either go to school until you are 22 or become an apprentice when you're 14, then I think it's totally unclear that school is actually better.

In most ways, actually, a job is actually providing better socialization. It's teaching you that there are customers and you need to make them happy, and that you need to get along with your coworkers and produce an actual product. Socialization compared to nothing, school is good. Compare that to what else you could have, it's not clear that it's even in the running, and seems like it's probably worse.

Regarding the other question, about getting valuable contacts, again: in school you get contacts, at work you get contacts, so either way you'd be getting contacts. The real question is the quality of the contacts. The main problem with contacts you'd meet in school is that the modern economy is so diverse and most majors are so unrelated to any industry that the odds that one of your fellow students will ever be in a position to help you is quite low. Again, this is not true if you're doing computer science at Stanford. Then your fellow students are super useful. But if you're an English major, what are the odds you're ever going to be doing business with the kid who was sitting next to you in class? Astronomically low. On the other hand, if you start working in a particular industry, then you're going to meet all kinds of people who are useful to you.

And again, there's a whole sociological literature on the value of connections, and basically what it says is that there are two kinds of really valuable connections. One is close relatives in any area, because close relatives will go to bat for you. And the other one is highly relevant contacts, people who already work in the exact industry where you want to work or who could be your clients in that industry. Those are the kinds of contacts that are worthwhile. You don't get benefits out of knowing tons of people vaguely; you get benefits out of having a few people that are super useful or love you.

WOODS: And of course, if you could just get out of your comfort zone a little bit, go to a trade show or a conference relevant to your industry. That kind of concentrated event with so many people would do a lot more good for you in terms of contacts than hoping that the guy sitting next to you in 10th grade is going to open doors for you.

Chapter 10

The Government's War on Affordable Housing

With Ryan McMaken

Ryan McMaken is a senior editor at the Mises Institute, and was the economist for the Colorado Division of Housing from 2009 to 2014. This chapter is drawn from episode 1334 of the Tom Woods Show.

WOODS: “Affordable housing,” as it’s sometimes been practiced in the United States, has been like “affordable education.” We do nothing to address why education is so expensive in the first place. We just give people low-interest loans so that they can get the education they want, while saddling themselves with debt. That is supposed to make it “affordable.” Same thing with housing: we’ll come up with creative ways to lend people money, and that way they’ll be able to afford the housing. Meanwhile, they are cursed with debt they can’t pay.

Well, you and I have rather more ambitious desires for affordable housing. That is to say, what if we could actually make the houses cheaper to start with? You have a series of articles on this topic, and I’ll be linking to them at TomWoods.com/1334. One of the subheadings in one of those articles gets right to the heart of the question: “Why Housing Costs Are So High.” What can you say about that?

MCMAKEN: One of the things we need to make clear is that when we talk about affordable housing, we mean subsidized housing. That’s usually the terminology in public policy circles. So I’ll try to not be confusing: when I say “affordable,” I’ll try to mean actual affordable on the market, without a subsidy. And when I mean government housing, government-subsidized housing, I’ll try to say “subsidized housing.”

If we want to make housing actually more affordable in the real sense, then we just need to produce more of it. But if you talk to people who are involved in housing policy, this is a crazy option that nobody wants to talk about. So it’s always, *What new program can we come up with? What new low-interest loans can we offer? What sort of Section 8 vouchers can we set up?* And then my question is: how about we just encourage people to build more houses by lowering zoning requirements and all these other regulations that go into that? Nobody wants to talk about that or hear it except libertarians.

That’s a big problem we’re facing: you’ve got this coalition between planners and government, who have all their very specific ideas about how housing should be developed, and then you’ve got residents who just don’t want their property values to be affected. So they don’t want any more housing built, and the price of housing therefore continues to go up.

You don't need a Ph.D. in economics to see the relationship here. But if you're not building enough to housing and you continue to have more people moving out of their parents' homes, you're going to need more of it, so you've got to build more. That's the key problem that we're dealing with.

WOODS: What is the motivation behind zoning? Couldn't you say that even in a pure private-property society, you would still have concerns like that – in other words, I can why some homeowner doesn't want his kids' school to be next to a brothel. That's why you have zoning. Now in a pure private-property society, obviously the guy building the school would either reach an agreement with local property owners, or he'd buy up property nearby, or there'd be some way to resolve this contractually. So it's not like it's totally unreasonable to say I don't want a brothel next to a school. How do you handle a legitimate concern like that, while at the same time not letting that legitimate concern become an obvious act of self-interest that just amounts to reducing the amount of housing available?

MCMAKEN: Well, there are a couple ways you can deal with that. One, of course, is the covenant community or the homeowners' association. People like to trash homeowners' associations, but that's of course a key way to ensure that your house is next to other houses that you want it to be next to. That's a purely private solution and one that is used in the marketplace today.

Another consideration is the fact that, just left to themselves, people just don't tend to build that way. Now, I could see people wanting to stick a brothel away in a less easy-to-see neighborhood, but mostly what people talk about – since brothels are, of course, illegal, and they're easier to get rid of if one's in your neighborhood. But mostly what people talk about are: I don't want somebody building a Best Buy right next to my three-bedroom house. But as has been pointed out, they just don't do that anyway, because you want to build a Best Buy on a main thoroughfare where thousands upon thousands of people are going to drive by every day. And you don't build housing normally in that same environment.

It's the same way with a gas station. You want to have a gas station in a highly visible, high-traffic place, and normally that's a disincentive for your housing: you don't want to be on a high-traffic street. And so on. Maybe you might have an apartment there, but of course we have lots of apartments next to gas stations and things like that. And so there's just a natural way that you develop things, where certain types of development want a different environment than just a single-family house. And so we don't build the way that people think would happen if you just didn't zone. There are natural tendencies there that should be recognized.

WOODS: Another one of your headings is: "Government Controls on Housing Are Very

Popular.” We sometimes like to portray ourselves as being the spokesmen for the downtrodden, and sometimes the downtrodden don’t even know they’re downtrodden or why they’re downtrodden, but we are going to stand up for them. But in this case, we’re standing against a lot of people who want the current situation. They’re quite happy with it. So talk about that.

MCKENNA: This is not something that you could blame on just rich people or just middle-class people. It’s actually the poor in this case, who truly tend to be the least powerful in this equation, because they’re least off in the residential property owners. What you’ve got are people, they move into a neighborhood, they are concerned about the property values because we have an economic mindset in this country where people are obsessed with their home value, because so much of their personal net worth is sunk into residential property, and so they don’t want that to be affected in any way.

So they go to the city councils – we see this all the time. I see it in my neighborhood, in my city, and I live in a regular city, where you would think people would get less worked up about, *Oh, we want to build an eight-unit apartment building here.* But nope, every time people want to build even a medium-sized apartment building or even a tiny strip mall with just four storefronts in it, people go nuts. They want to park there. It’s like a park at a corner along two busy streets. *Oh, no, you should put a playground there, because you don’t want to disturb the character of the neighborhood.* It’s a dumpy corner on an industrial street! But nope, we can’t build any more housing there, and you can’t put a sandwich shop there. People are just obsessed with this idea: *I moved into my neighborhood the way it is, and I don’t want it to ever change.*

People may say, *Oh, I should be able to do what I want with my private property,* but when the rubber hits the road in terms of someone else developing something they don’t like in their neighborhood, well, that all goes right out the window. Even if you got a room of 200 libertarians together who were all living in a residential neighborhood and you said, “How many of you would be annoyed or oppose the idea of your neighbor fixing a bunch of junk cars and selling them to people out of his front yard?” there’s no way all of those people would be fine with that. And these are people who say, “Oh, I love private property.” But the reality is, they don’t want their neighbor doing that stuff, and they want some way to prevent people from doing that. And we just see that at all levels, all the time in these neighborhoods. And that’s why stuff doesn’t get built.

WOODS: You write that the twin approaches of subsidized housing and inclusionary zoning constitute band-aid approaches. Now, why is that?

MCKENNA: Well, it’s easy to point out the problem with inclusionary zoning. This is the idea that a certain percentage of any new housing that you develop has to be subsidized or priced at a certain level. Say I want to come in and develop 100 condos. Okay, well, 10 of

those, then, need to be sold at a certain price level. It's a sort of price control regime that goes into place. What happens then is people don't want to be subject to that, so they just take the resources to a neighboring jurisdiction. So that city that says it needs more "affordable housing" winds up getting less housing produced overall, because they've got this additional regulation in place. That's been documented in lots of empirical evidence. It's why you end up with housing so much worse in places like San Francisco.

And then there's the issue of the subsidies. Now, that's at all levels. That can happen from the local level, where you have a local housing fund of some sort that subsidizes purchases or rents, or it goes all the way up to the central bank, where they're subsidizing loans through monetary policy. But the effect of all of it is to drive up prices, just as it does with student loans, as you mentioned earlier, where you're basically handing over money that must be spent on a specific purpose. That kind of policy funnels money then into housing and drives up the prices in certain times and places.

Now, of course, you might say, well, people need that money. That stuff's not affordable otherwise. But it very much distorts the market then, in terms of producing certain types of housing, and in making the housing more expensive, because there's more money coming into it that can't go elsewhere.

And we see what I mean by that if we look at higher education. In higher ed, as has now been documented, they're building fabulous new dorm buildings with cascading waterfalls in the lobbies and all of these amenities, and every building is beautiful, and every residential hall is just this amazing luxury thing. And a big reason for that is now you've got universities who want to get their hands on all of these huge amounts of funds that are being subsidized, and people are less sensitive to price because of the subsidy. So what we would probably see without these subsidies are more modest, more reasonably priced higher education packages.

The same would be true of housing. As I've noted in other articles at Mises.org, we continue to see median sizes of homes continue to go up. And that's median, not average, so it's not being driven by just a few zillion-dollar houses. These continue to go up. People aren't really scaling back on their housing sizes, and a lot of that is because the money continues to be cheaper. In reality, since we're hearing so much about affordability, we should be building more two-bedroom houses on small lots, small, simple houses, especially since family size is getting much smaller. But that's just not happening.

WOODS: In one of your articles you include this interesting insight: "Nor should we trouble ourselves with mandating that builders create housing that caters to low-income houses. The problem isn't too little low income housing per se. The problem is too little housing overall."

“After all, for every new unit built – even if it’s a luxury unit – the housing supply increases, prices will fall ever so slightly, all else being equal. Over time, the cumulative effect of new units built for a wide variety of price levels will be to bring housing prices down overall. As new luxury units are built, the wealthiest renters and homeowners will tend to move into newer and fancier units. The older, now-less-demanded units will fall in price, making them more affordable to lower-income buyers and renters.

“Today’s luxury units are tomorrow’s affordable housing.”

There’ll be a lot of pushback on that, but there’s no escaping the logic.

MCKENNA: I believe some policy analysts call this the “ladder of housing” or the “housing ladder,” so that as units age, people just move up into what were formerly super-nice units. When I worked at the division of housing [in Colorado], I would get calls from the media, and they would say, “Is neighborhood X over-built?” And my answer was always: well, it depends on the on whose perspective you’re coming from. Rarely is a neighborhood overbuilt from the renters’ perspective. A neighborhood really is overbuilt from a renters’ perspective only when you have so much housing that you’ve got, for instance, empty units that criminals are cooking meth in. However, if you’ve just got a bunch of units and the price keeps coming down, well, that’s great from a renter’s perspective. That’s not over-built; that’s great for you.

What they really mean, of course, is: is this over-built from the developer’s perspective? A developer comes in and builds a new bunch of apartment buildings, but now can’t get the price that he had told his investors he would be able to get, and he can’t make his debt payments, and so on, on this new apartment building as the owner. So then it’s “over-built.” Now, I’m thinking, well, that’s the developer’s problem, right? He came in and built a bunch of stuff, and now what you had imagined as this incredibly luxury apartment isn’t commanding the prices you thought it would, and now you’ve got more middle-class people moving into some of these units, and so on. I just don’t see the big reason to worry about that.

Now, if it happens too much, of course, then you would have capital leaving the multifamily or single-family development sector for other sectors. But people scale back immediately, as soon as they see that that new building isn’t profitable. So it only happens really at the neighborhood level, where you’ve got “over building.” But it’s just not a problem from the larger perspective. You come in and build a lot of housing, well, that just means you end with more affordable housing, even if that housing is luxury housing. And so if you over-build luxury housing, all that means is it’s now more affordable than you hoped it would be. And that’s fine. It’s not really something to worry about.

WOODS: Can we go back in history a bit and talk about rooming houses?

MCMAKEN: Yeah, this is a great topic. I just saw an article on how, millennials and other people are starting this new thing called house sharing, where they're renting out a room to a lonely old person, or an empty-nesting couple is renting out a room to a 20-year-old who needs a place to live and now they're less lonely.

WOODS: Yeah, where did they ever get that idea?

MCMAKEN: [laughing] Right. And I thought, well, this isn't a new idea, right? And yeah, in the article I wrote on boarding houses, I noted some of these historians who were saying that a huge portion of Americans had lived in boarding houses, had even grown up in boarding houses. And the advantages are numerous. You could see that if you're a single mom who had children – and of course, this was fairly common in the 19th century, because husbands died in accidents and things like that – well, it was much, much safer for you, if you could then rent a room with your two small children or whatever from a family who lived in a neighborhood on the edge of the city and so on. Or if you were a young woman who wanted to move into the city, you could find a roommate and room up with some little old lady who owned a small apartment building that she was renting out a bunch of rooms in, that sort of thing. And this was very common in cities, and this was the source of affordable housing for a lot of people.

What happened was that norms changed over time. I note some weird efforts by progressives to force everybody to live in single-family houses, because that was what good, middle-class, Protestant Christians do. We all live in our own single-family house, because otherwise that's just communism. They actually said this. Over time, that thinking gradually stamped out the idea of the boarding house. Not to mention that there was so much prosperity in the postwar period during the late '50s and the '60s, that people concluded, *Well, I'll just buy my own single-family house, that's no big deal.* But as soon as things started to become unaffordable again in many areas, people then either made it illegal to have the boarding houses or the culture had not come around again to embracing that as a viable solution.

Another variation on that is the residential hotel. That used to be a big, big thing too, where old people especially, whose incomes were declining and who were spending down their capital, could live in those places very cheaply. There was security offered in those places as well. That was all very important, but we're not employing those very useful options now.

WOODS: I want to read yet again here – this is actually a quotation that you have from an Alan Durning, because you're pointing out that there are even some people on the left who

are coming out and saying that regulations in existence against this type of living arrangement are obviously hurting people. One of my favorite remarks along these lines comes from our friend, the economist David R. Henderson, who says something like this: you don't improve the welfare of the poor by looking at the list of their options, and removing the one they actually chose. So if somebody actually chooses a job you think is undesirable, removing that option obviously can't improve that person's life, because now he's got to go on to only the second-most desired thing. Likewise, if people choose to live this way, and you simply say, well, in your own interests, we're going to take that option away, how is that really in their interests? Anyway, here's what we read:

“A future unfettered by such rules [that is, zoning against boarding houses] would see the reemergence of inexpensive choices, including rooming houses and other old residential forms. Such units will not satisfy those of greater means and the expectations that accompany them. They would not try to. But they can meet an urgent need for young people, some seniors, and for poor and working-class people of all ages: the need for homes they can afford that are still more luxuriant than those lived in by a third to a half of the population of the earth.”

Now, that itself is a very, very important point, since some might say, “That's not the best kind of housing arrangement.” All right, but it is better than most people on earth have and better than most people who ever lived have, and that is surely something. Also, nobody says you have to live there forever. I pointed out in one of my episodes last week that, when somebody went and looked years later at those crowded tenement houses that Jacob Riis documented in the 1890s, they were almost completely empty, because as people became wealthier they just moved to Brooklyn, they moved out of these, and that was the end of it. So you don't have to live there forever. But certainly if that's the best option you have, especially as you're just starting out, it's better to have that option than not to have that option.

MCMAKEN: Yeah, it's horrible how we've taken away these options. A big factor in the homelessness problem was in urban renewal – and a lot of leftists have pointed this out too – that bulldozing flophouses was not the way to help poor people. But that's what happened in the '50s and '60s and '70s. *Oh, we've got a bad neighborhood, these flophouses are filthy and moderately dangerous. You know what? Let's bulldoze them all, so that the people who had lived there can now live under a bridge.* And that was what happened. Now those people are freezing to death, whereas before they just lived in extremely suboptimal housing. And that seems to be the rationale, for some bizarre reason.

And that's exactly the point you make also: a lot of those people weren't living in those conditions their whole lives. They had fallen on hard times. We used to have expressions for this, right? You're just down and out, and the idea was that you'd probably get back

on your feet. Now, I'm not saying that's true for everybody, but it is true for a lot of people, who just need an extremely cheap and undesirable option that's better than sleeping outside at various times. Removing that on the grounds that a middle class family, or rather, just a family of four shouldn't have to live this way – well, that's fine; that's a good way to think. However, maybe they just need that for a few weeks in order to not live in their car, so these options should be kept available to them.

And when we're looking at things like boarding houses and so on, a lot of the time, as was noted by historians, these were usually used by single people or widows and people who don't have another option. A lot of the time, sure, if you've got both parents who were able to work and things like that – which, by the way, was a common thing: there's this weird assumption that only one parent worked throughout history, and it's a new thing that two parents work. That's not true. Historically, both parents worked – which, by the way, was another advantage of the boarding house, where you had other adults around so that you could go and run an errand and leave your kids unsupervised but not totally alone.

All of these options are important in recognizing that people are at different places in their lives. Just think of ourselves, right? I remember before I had a house, my wife and I lived in this complete dump along an extremely busy street in Denver. It was \$600 a month during an expensive period in Denver, and that was fantastic, but there were semis whizzing by my window all the time. Of course, I wouldn't want to have kids there. But being able to live in that dumpy place allowed me to save enough money to move somewhere else where I could have kids in a safer place. And so we need to look beyond just the idea that, well, this is where people are going to live for 50 years, so obviously, we can't just have this at all, so just tear it down.

WOODS: It somewhat reminds me of the this thought experiment I've heard: imagine that you're unhappy at the quality of automobiles that the poor have, so you say, *All right, no more awful jalopies for these poor people to have to drive around in. From now on, we're going to say that there can't be any car on the road that costs less than \$25,000, and that way, we'll make sure that everybody's got a quality car.* Now you should immediately see the fallacy of that. Just putting that regulation into place doesn't magically create a bunch of really nice cars. It just means that now the poor can't get a car at all. This is the same kind of thing that you see, in this case, with housing and in other areas as well.

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About Tom Woods

Tom Woods is a senior fellow of the Mises Institute and host of The Tom Woods Show, which releases a new episode every weekday. He holds a bachelor's degree in history from Harvard and his master's, M.Phil., and Ph.D. from Columbia University.

Woods has appeared on CNBC, MSNBC, FOX News Channel, FOX Business Network, C-SPAN, and Bloomberg Television, among other outlets, and has been a guest on hundreds of radio programs, including National Public Radio, the Dennis Miller Show, the Michael Reagan Show, the Dennis Prager Show, and the Michael Medved Show.

Woods is the author of twelve books, most recently *Real Dissent: A Libertarian Sets Fire to the Index Card of Allowable Opinion*, *Rollback: Repealing Big Government Before the Coming Fiscal Collapse* and *Nullification: How to Resist Federal Tyranny in the 21st Century*. His other books include the *New York Times* bestsellers *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse* (with a foreword by Ron Paul) and *The Politically Incorrect Guide to American History*, as well as *Who Killed the Constitution? The Fate of American Liberty From World War I to Barack Obama* (with Kevin R.C. Gutzman), and *33 Questions About American History You're Not Supposed to Ask*. His critically acclaimed 2004 book *The Church Confronts Modernity* was recently released in paperback by Columbia University Press.

Woods' books have been translated into Italian, Spanish, Polish, Lithuanian, German, Czech, Portuguese, Croatian, Slovak, Russian, Korean, Japanese, and Chinese. He edited and wrote the introduction to five additional books: *Back on the Road to Serfdom: The Resurgence of Statism*, *We Who Dared to Say No to War: American Antiwar Writing from 1812 to Now* (with Murray Polner), Murray N. Rothbard's *The Betrayal of the American Right*, *The Political Writings of Rufus Choate*, and Orestes Brownson's 1875 classic *The American Republic*.

Woods' writing has appeared in dozens of popular and scholarly periodicals, including the *American Historical Review*, the *Christian Science Monitor*, *Investor's Business Daily*, *Catholic Historical Review*, *Modern Age*, *American Studies*, *Intercollegiate Review*, *Catholic Social Science Review*, *Economic Affairs (U.K.)*, *Quarterly Journal of Austrian Economics*, *Inside the Vatican*, *Human Events*, *University Bookman*, *Journal of Markets & Morality*, *New Oxford Review*, *Catholic World Report*, *Independent Review*, and many others.

Woods won the \$50,000 first prize in the prestigious Templeton Enterprise Awards for 2006, given by the Intercollegiate Studies Institute and the Templeton Foundation, for his book *The Church and the Market*.

His entire catalog of podcast episodes can be found at tomwoods.com/episodes.