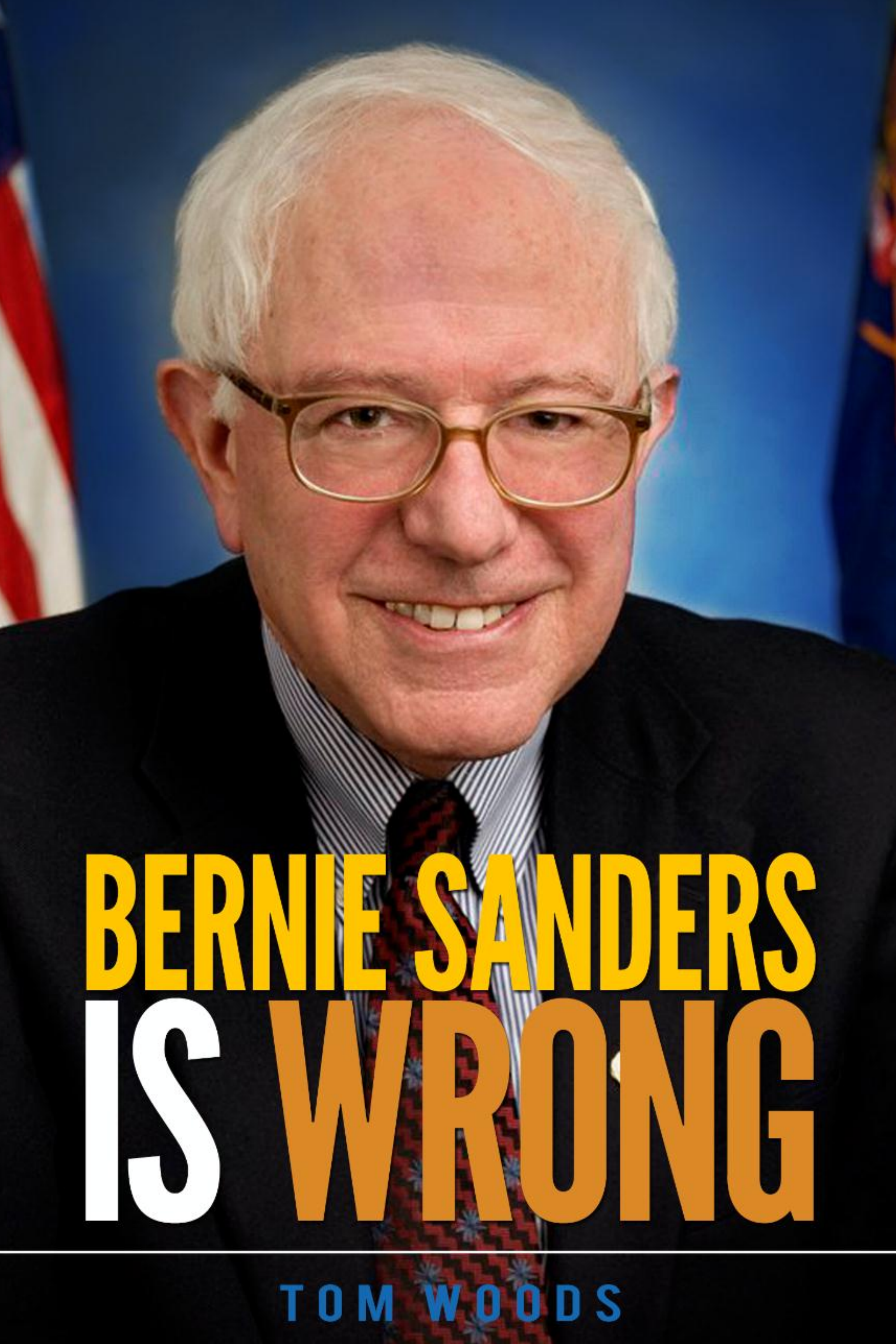
BERNIE SANDERS
IS WRONG
TOM WOODS

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PART IV: Would More Government Intervention Improve the Economy?

Introduction

Bernie Sanders, United States senator from Vermont and self-described socialist, has surprised everyone with the vigor of his 2016 presidential campaign, both in terms of the size of his crowds and the strength of his fundraising. His message, on the other hand, is garden-variety leftism, particularly in economics, where he speaks as if the private sector can be ceaselessly burdened with no ill effects on anyone, except a bunch of greedy fat cats who deserve what they get.

Even on foreign policy – where some people thought Sanders might have something sensible to say, having opposed the disastrous and absurd war in Iraq – the former senator has proven himself unreliable over the years. He was all in favor of the bombing of the Serbs over Kosovo, for example, a truly preposterous campaign based on ludicrous propaganda. He recently voted to send $1 billion to the coup government in Ukraine. He's been a major supporter of the F-35, one of the greatest boondoggles of the military-industrial complex. His approach to foreign policy, in other words, is evidently grounded in ad hoc judgments instead of a consistently applied principle.

I've been releasing a new episode of my podcast, The Tom Woods Show, every weekday since September 2013. For this eBook I have put together transcripts or portions of transcripts of episodes relevant to the issues Sanders has been raising – everything from income inequality and green energy to free trade, "pay equity," Scandinavia, health care, and the minimum wage. Here's the side of the story Sanders neglects.

If you enjoy the book, I hope you'll pay me a visit at TomWoods.com and become a listener as well!

PART I
Should the U.S. Model Itself After Scandinavia?

Chapter 1
No, Sweden Is Not a Model to Emulate (with Johan Norberg)

Johan Norberg, a native of Sweden, is an author, lecturer, and documentary filmmaker. Visit his website at JohanNorberg.net.

WOODS: Sweden comes up with surprising regularity in the United States, and it comes up not because people have some interest in Swedish history and culture, I'm sorry to say. It's because they want to use Sweden as an ideological bludgeon with which to beat people who are skeptical of state power. So I want to talk to you, as somebody who was born in Sweden, who is speaking to us from Sweden right now, and who is very knowledgeable about Sweden, to help clear this up for an American audience. Are Swedes aware that their society is held up as a model for how political organization and the economy ought to be arranged?

NORBERG: I think we are aware of that. We have noticed throughout the years that people actually tend to like Sweden for some reason, perhaps because we're kind of small and insignificant, and we're not very threatening. So people tend to think of Sweden as a nice, decent place, peaceful. We don't bother people. And then they tend to like different aspects of what they see. I think of Sweden as a kind of Rorschach test, a kind of psychological test where you have some ink which doesn't portray a particular picture or anything, but you see what you like to see. You see what you think about in the back of your mind and in your subconscious. So some people see this as a nice, open economy – a globalized, free-trade economy. Others look at the government and think, oh, it's the perfect, big government, socialist country. And others see other things. It could be free love or the pop music. People tend to like Sweden. That's something we're very aware of.

WOODS: You have an article alleging that Sweden actually succeeded economically not because of welfare state spending and government intervention, but both in spite of those things and prior to those things. So can we go back and look at the history of Sweden? When do we begin to see robust economic growth, and what was the role of the state at that time?

NORBERG: When you start to think of when Sweden was really a successful economy that the rest of the world looked at, you begin to notice Sweden in the 1950s, '60s. In 1970, Sweden is one of the richest countries on the planet. I think the per-capita income is the fourth most prosperous on the planet, and that's after a 100-year period of rapid economic growth – one of the fastest in the world. Probably only Japan beat us during those years. So you would have to say that this starts sometime in the 1870s, which is interesting, because at that time Sweden had gone through a liberalization and deregulation process. Between 1840 and 1870, we had a major political movement of classical liberalism, of a *laissez-faire* liberal attitude where they wanted to reduce government to open up to free trade, deregulating industry and so on.

And it's sort of a funny anecdote: the minister of finance, who was one of the pioneers of these reforms, left in the mid-1860s after having really liberalized and opened Sweden up, and his opponents said, oh, now you're leaving because you don't want to see the failures that you brought upon us and the problems that Sweden will experience after these reforms. But what happened was that growth really took hold. If you want to look at one particular set of numbers, between 1860 and 1910, right before the First World War, real wages in Sweden increased by 25 percent per decade in manufacturing. That's much faster than before and much faster than afterwards – which is interesting, because that's 20 years before the Social Democrats ever got power in Sweden. So the real boom happened during this *laissez-faire* period. Public spending was still below 10 percent, and Sweden was one of the most open economies in the world.

WOODS: This seems to be a common feature of a lot of left-wing commentary. They'll look at a *snapshot* of a society in a particular year without looking at the *video*, so to speak, of that society. What had been going on prior to that snapshot?

We see this in the debates over the regulatory state in the U.S., for example. We'll look at a regulatory agency, and we'll see that after they created it, the result was that – for example – there were fewer workplace fatalities. What they don't ask is: what was the already existing trend in workplace fatalities before we got this agency? And it turns out that workplace fatalities were already falling dramatically!

Likewise, in the story of Sweden, we don't get what you just told us about the growth in wage rates *before* all the interventions came, but that's three-quarters of the story!

NORBERG: Exactly. That's an incredibly important point. A lot of people look at Sweden and say – and especially, they used to do that when we were at the peak of the big government and the welfare state in the 1980s – look, Sweden is very prosperous, and at the same time, taxes and spends heavily. It's a very almost socialist economy, and yet they are rich. Why is that?

Well, it reminds you of the old joke: how do you get a small fortune? Well, you start with a big one, and then you make a couple of mistakes, and then you end up with a small fortune. We had this tremendous growth during the years when Sweden had the most open economy and the smallest government. Even when the Social Democrats began to get power in the 1930s, they understood this economic model, and they didn't want to interfere too much. They were actually heavily influenced by a couple of famous classical liberal economists.

[TW note: "Classical liberalism" refers to 19th-century liberalism, which was much closer to modern libertarianism than it was to modern American liberalism.] So most of the time, they were open for business and chose free trade. As late as the early 1950s, Sweden had lower taxes and less public spending than in the United States and the rest of Europe, and that gives you a perspective on why this happened. You built this big fortune under these circumstances.

In early 1970, Sweden was one of the richest countries, and then the Social Democrats began to hike public spending, increase taxes, and so on, but they could do that only because we already had that wealth because of this free-market period – and also, obviously, because Sweden had stayed out of two world wars. That meant that our industry was intact, we exported to both sides, and the young men of the country were still alive and able.

WOODS: I think a skeptic might come back at you and say, if Sweden really had been doing that well, then how could the arguments for the welfare state have gotten any traction?

NORBERG: Yeah, and that is a good question. It's one that both historians and economists think about quite a lot when that happens, but actually, it follows a fairly normal pattern in most countries around the world. You get rich, and then you begin to take that wealth for granted. He who has satisfied his thirst turns his back on the well in a way. You begin to take it for granted. You don't think of the preconditions for creating more wealth, building these new businesses, and the kind of fierce competition and openness that it takes. So instead, you begin to demand all of it at once. You begin to build these pressure groups who want more access to this wealth and more evenly distributed wealth.

And that's, I think, what began to happen in the 1970s. We were so rich so that we thought that we couldn't make any mistakes anymore. We could throw out the economics textbooks, and we could begin to think of other things, like a fairer distribution of wealth, how to make sure that everybody got a piece of the action.

WOODS: And that is one of the arguments that is made by American progressives today. They will say: whatever else you can say about Sweden, it has more economic equality than we see in the United States.

NORBERG: And that is true, partly because of more redistribution. But also, even here you need some historical perspective to understand where we're coming from. Sweden had a fairly equal distribution compared to many other countries during this openness period as well, partly because it's a very small country – even today just 10 million inhabitants – and a homogenous country, which meant that there weren't these huge diversities when it came to wealth. Sweden didn't even have a feudal period like the other European countries. So we were all, in a way, property-owning farmers when we started out. So we had a history of more equality, more trust, societal trust, between people.

This social trust, though, also made it easier for people to accept bigger government. Because when that happened in other places, people were very suspicious: what happens when they take our money away? Will they just divert it to their own use? Will it be inefficient? Will it be bureaucratic? Well, Sweden has always had in a way a fairly efficient and non-corrupt public sector and civil servants. And a lot of trust: you don't think of the government historically as someone who is there to loot and take it all away from you. They're more like your neighbors, in a way. So you trust them, and then you trust them a bit too much. And of course, all power corrupts in some way. And that's what happened during these years, when the government grew rapidly in the 1970s and the 1980s and public spending actually doubled in just two decades, from 30 percent to 60 percent. That was really the start of the welfare state in Sweden.

WOODS: What was economic performance like in the wake of these programs? Was it prosperity? Was it less prosperity than before? Was it outright disaster?

NORBERG: Somewhere in between, I would say. And again, you have to consider the fact that Sweden had already outdone the whole world, basically, and it was one of the richest countries on the planet. So we had done a few things right and could carry on for quite some time. Even during these years, when they began to increase public spending and taxes and regulate the labor market and so on, they always had an open economic model. Even the Social Democrats knew how Sweden was dependent on exports and imports as a small country, dependent on actually quite large multinational companies. So they needed that openness for competition, and a bit less regulation as well.

But what happened then is that growth began to slow down from 1975 until 2000. Sweden only had some 60 percent of the accumulated growth that the United States had and only some two-thirds of the rest of Europe. So actually, at exactly the point in time when the rest of the world was saying, look at Sweden, they're fantastic, Sweden began to lag behind the others. And in the year 2000, Sweden had gone from having been the fourth-richest country on the planet on a per-capita basis to being the 14th-richest country on the planet. Still not awful, not a disaster in any way. But it was now more mediocre rather than leading the world. And you could begin to see the problems long-term for this model. Incredibly, by the mid-1990s, Sweden had not created a single net job in the private sector since 1950. So all the growth in employment and investments had basically taken place in the public sector.

WOODS: That is an amazing statistic.

NORBERG: It's something that actually shocks Swedes quite a bit and shocked the Social Democrats a bit, I think, too, because they always understood that you could tax and spend, but only if you had something that functions well that you can tax. So that actually started a big discussion in Sweden on how to take Sweden a bit more back to the model that created this growth from the start. We had a period in the 1990s, and that has in a way continued, where we began to go back to the future in a way and began to reform Sweden in more ways. Marginal tax rates were cut. We had public pensions that were cut and partially privatized. School vouchers were introduced and private providers welcomed in the public sector, and at the same time, deregulating product markets – partly as a result of a big economic crisis in the early 1990s, where we had our first real, awful inflation boom that crashed. Then afterwards, there was a lot of consensus on reforming Sweden again.

WOODS: Americans know that Sweden has a substantial welfare state, but that's really all we know. Are you able to paint a picture for us of exactly what it consists of? What kind of programs are we talking about? How generous are the benefits?

NORBERG: It's a welfare state that tried to be, at least for a couple decades in the 1970s and '80s, a real cradle-to-grave welfare state, trying to heavily subsidize child care and preschool and things like that and maternal leave for a long period, and then obviously the schools and then free universities without any kind of fees, and the health-care system has been socialized, even though there have been fees there to try to ration it in a way, and at the same time, a big social security system that takes care of things from sick leave to unemployment insurance to a pension system that has been fairly generous. All of these things are still quite generous if you compare them to the American system, but at the same time they have been scaled back. In the 1990s and the early 2000s, we began to see some of the problems here when we have generous benefits. It could be from 80 percent at some point even up to 100 percent. If you have generous benefits like that like sick leave, it means that people are off sick more often – and especially on Mondays and Fridays. We began to see that in Sweden, which on objective measures has one of the healthiest populations on the planet, we're off sick more than any other country on the planet.

So it was scaled back. There was a new understanding that we need incentives to deal with that and that people react to incentives, but the background is that Swedes didn't want to rely on these systems. We have this history of social trust and a bit of social control. You are basically one of the property-owning farmers in a tiny village. If you live on the welfare system, you live off your neighbors and your relatives, and they don't like that, and you don't like that, and you're ashamed of it. So Sweden could build more generous systems like that because people didn't really use them that much. They still wanted it to work. It was a matter of self-esteem. They would never use it or rarely use it even if they needed it.

But then, of course, what happens after you've had these systems for a couple of generations is that the culture begins to change. When you change the incentives – people are brought up in an entirely different system where they see that work is difficult, and you are forced to pay heavy taxes, but at the same time, it's easy to be off sick or unemployed – well, that begins to change that work ethic, which was an important precondition for Sweden's wealth and for the welfare state. So that's something we are dealing with right now. We've just had eight years of center-right government that tried to scale back these benefit systems and implement more controls, and at the same time, lower taxes on work to change the incentives.

WOODS: What is the current political picture in Sweden? Has there been a backlash against this center-right government?

NORBERG: I would say so. We had an election in September [2014], and it wasn't really won by the center-left. The combined three parties on the center-left, they didn't gain more than one percentage point, or something like that, since the last election. But what happened is that we had a big new populist, anti-immigrant party that captured 13 percent of the vote, and they are playing on the same kind of discontent as the Left does in a way – that, look, this has gone too far with Sweden: we have opened up, we have deregulated, we have scaled back the welfare state too much. We want to go back to the 1950s in a way. So the center-right has lost a lot of votes there, but there's no large majority for really changing the system or going back to the big government system, partly I think because even the Social Democrats have accepted much of this model. It's very difficult for them to change some of the basics, because what happens when you begin to reform is that you build new pressure groups – parents, families who are interested in freedom of choice, the private schools, the voucher systems and things like that.

So even though there's been some backlash, it isn't being changed to a dramatic extent, I think. The bigger problem is that somehow the reformers lost steam. They lost energy after having done what they set out to do.... But if you look at the broad picture right now, if you look, for example, at the Economic Freedom of the World Index, in four of the five spheres of economic freedom Sweden is more economically free than the United States. I think the American perception of Sweden should be updated.

WOODS: Can you tell us about any current projects that you're working on?

NORBERG: Well, there's a constant need for updates: all the data that I looked at *In Defense of Global Capitalism* is improving even faster now. We are really seeing the fastest economic and social progress the world has ever seen, and we're seeing it in the countries that liberalize [i.e., introduce capitalism] the most. Five thousand people are lifted out of extreme poverty every hour of every day. So it's a tremendous progress. At the same time, you see the same arguments being made again and again about how the economy is a zero-sum game and how capitalism runs amok, and we have to control it and so on....

I am also working on things like looking at India's economic and social progress, where you can see the same thing where they have reformed. They can see tremendous progress. Where they haven't reformed, we still see stagnation. So, in a way, the socialists are right: as their saying goes, there is an unequal distribution in the world, and it's because of capitalism. But not in the way they mean. The unequal distribution of wealth in the world is because of the unequal distribution of capitalism. Where you have capitalism, you see this progress. Where you don't, you see stagnation, poverty, and misery.

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Chapter 2
The Truth About Denmark, the "World's Happiest Country" (with Christian Bjørnskov)

Christian Bjørnskov is a professor of economics at Aarhus University in Denmark.

WOODS: Before getting into the details about Denmark and the claims made in this notorious Huffington Post article that very, very rapidly made the rounds on Facebook, tell us what exactly this happiness literature is all about. What are some of the assumptions behind it?

BJØRNSKOV: Well it's about 20 years old, the modern literature on happiness. The main assumption is that people know themselves best, so instead of trying to set up an index of what we think people ought to like or what we think a good life ought to be, we ask people themselves. So we'll ask people, what makes you happy? We ask them, how happy are you these days? Or, how satisfied are you with your life as a whole? When we have questions from literally 100,000 people, it's pretty easy to go back and see what's common to the very happy people, what makes them happy. So what makes some Americans happy and other Americans happy and what makes Danes happy and Americans?

WOODS: How do you measure happiness? It seems like a difficult thing to grab hold of conceptually.

BJØRNSKOV: It is, but as it turns out the simplest question is the best measure. The question is, "On a scale from one to ten, how satisfied are you with your life as a whole?" That's a good question, because it doesn't leave anything specific to answer. It doesn't presume that we know what makes you happy. So people will answer that in an honest way, because we haven't asked about anything that triggers any social norms – for example, anything that makes people say "this makes me happy" because they think it ought to make them happy. It gives the most precise answers.

WOODS: It does seem like a question to which you might be more likely to get an answer that's valid across cultures. I think, for example, of when Korean children are asked if they consider themselves good at mathematics. A lot of them will say no. And yet most American kids will say they are good at mathematics, and they're actually terrible at it. That indicates in both cases some cultural assumptions about what it means to be good at math and the expectations that your parents have of you. Simply asking *are you happy*, on the other hand, does seem like a question to which we might plausibly expect to be able to compare answers from one country to another.

But now, of course, the specific reason I invited you on involves the finding that Denmark is the world's happiest country. And there are political implications of this, because you know as well as anybody that Denmark has a very substantial public sector. It didn't take very long for people to draw what they consider to be the appropriate conclusion. What do you make of Denmark coming out on the top of this happiness ranking?

BJØRNSKOV: It actually makes sense if you know the literature, but it's not due to the reasons that the Huffington Post claims in that article, published all over the world. It doesn't have anything to do with the public sector or with the massive welfare state that we share with Sweden and Norway. It's mainly due to something quite different. It's due to the very high levels of social trust. We don't really trust our politicians more than you guys do, but we trust other people way more than anyone else in the world. So if you ask questions like, "In general, do you think most people can be trusted or do you have to be careful?" roughly 40 percent of Americans say yes.

The global average is 27 percent. If you go to Denmark, 70 percent say yes, you can trust other people. With that level of trust there are a lot of worries that you just don't have to have in Denmark. You feel safe with other people.

WOODS: What do you attribute that to? That's an extraordinary figure.

BJØRNSKOV: It's an extraordinary figure, and we don't really know where it came from. But what we can see is, for example, among third-generation immigrants in the U.S., they still have more or less the same trust their grandparents had when they immigrated from Denmark or Norway or Sweden. It survives throughout generations. That makes it very difficult to say where it actually came from. We know that communism destroyed trust, so we know that it's possible to destroy trust in other people. But we don't really know how to build it, although we can see its consequences quite clearly in happiness, in the quality of legal systems, in how much or how little corruption you have. Those are all good consequences, but we don't know how to create them.

WOODS: When you say that this really gets to the core of why Denmark comes out at the top in terms of happiness, is this just an educated guess on your part, or do you feel like you have rigorous social scientific data to back this up, that this really is the explanatory factor?

BJØRNSKOV: My first scientific paper in an international journal was about this issue, and I've been working on that for the last ten years on and off. Several other people, including John Helliwell, who co-authored the last World Happiness Report, has been working with that and found the same thing. We also know that that characterizes parts of differences between happiness across U.S. states. So a state like Minnesota is happier than a state like, say, Mississippi, because trust levels are way higher in Minnesota than in Mississippi.

WOODS: You've done, as you say, scholarly work on this question of trust and yet it's still sort of elusive as to how to account for why one area – I mean, there's nothing about cultural homogeneity that might account for the higher levels of trust?

BJØRNSKOV: We usually think that ethnically diverse countries will probably be less trusting. What we now know is that they're not. We also know that ethnically diverse American states are not more or less trusting. What we know is that states with a larger African-American population are less trusting, but that's for obvious reasons – that is literally centuries of oppression that you eventually see in the trust measures. So there's a lot of different historical factors that have shaped trust over the years, but at the end of the day, you pass on your trust level to your children. If nothing dramatic happens with them, they pass the same trust level on to their children. That way it just survives across generations.

WOODS: If you wouldn't mind, though, let's nevertheless revisit this Huffington Post article. I do want to review the kinds of claims that are made by American left-liberals. And by the way, tomorrow I'm going to be talking to somebody from Australia, because Americans are saying that Australia has a high minimum wage, and that since Australia seems to have robust employment figures, we should have a high minimum wage as well. Americans are so eager to chase after whatever they perceive to be some fad in some other country that they think they can summarize all of Swedish history in two sentences, for example.

The first item in this Huffington Post article is "Denmark Supports Parents." It says, "Danish families get a total of 52 weeks of parental leave, and they get free or low-cost childcare. They get health and well-being consideration in terms of early childhood education." Anyone living in a society like this will surely be happy, is the conclusion. How do you respond?

BJØRNSKOV: What we know from the last ten years of research is that people adjust expectations. A lot of material improvements don't give us any happiness in the long run. You might be better off if you buy a larger car, but one year later you've gotten used to that car, because that's just what a car does. The welfare state does gives us some material improvements that we hadn't chosen for ourselves. We know that those kinds of improvements are the improvements that we're getting used to the fastest. So they can't give us any lasting or permanent higher happiness, because we just adjust our expectations. In Denmark, we have high unemployment benefits, we have the 52-week maternity leave, and that's just what we expect to get. It doesn't do anything permanently for happiness levels. What the 52-week maternity leave does is it leaves mothers behind in the employment queue. It's actually damaging to their career in the long term.

WOODS: That's interesting. So mere material improvements don't mean you're going to be happier in the long run. It means your expectation level is now at a higher plateau.

Now in terms of the maternity leave, this is an interesting point. Are there other scholars in Denmark who are pointing this out? Surely Denmark has a very strong feminist movement. Do they not notice that being absent from the workforce for a year has a long-term effect on a professional woman?

BJØRNSKOV: The problem is that the Danish feminist movement has its roots in Marxist movements from the 1960s, 1970s, so there is a divide. There's also a generational gap between the old feminists and some of the new feminists. The new Danish feminists quite clearly realize that the maternity leave and a number of other labor-market regulations are actually damaging the equality between the genders. They're damaging to women's careers. But it's a quite sensitive issue, because once you've given people a 52-week maternity leave they expect that as a right, not as a gift.

WOODS: Let's move on to the next claimed right that makes Danes happy. "Health care is a civil right," we read here. It says, "Danish citizens expect and receive health care as a basic right, and what's more, they know how to effectively use their health systems. They're in touch with their primary care physician an average of nearly seven times per year." I understand why this, too, for the same reason, can't be the explanatory factor behind the happiness results. But still, Americans might well say, "All right, well, forget about happiness. What we care about is material well-being, and Denmark shows that you can have a substantial welfare state and still have a fairly robust and competitive economy." Now as somebody living in Denmark who is an economist, what would you say to an American audience that's convinced of this?

BJØRNSKOV: I would go with the Heritage Foundation, which last year characterized Denmark as a schizophrenic nation. In the economic freedom index that we publish every year, Denmark has almost exactly the same score as the U.S. but with a much, much larger public sector. If you look at other parts of Danish society they are far more capitalist than the U.S. Property rights protection is among the finest in the world. The monetary approach is very, very stable. Labor markets are more or less deregulated, so closed-shop regulation that we know from a number of American states is actually illegal in Denmark. What is obvious to people is a large welfare state. What are not obvious are the institutions protecting the welfare state [in other words, the free-market institutions that create the wealth that makes the welfare state possible].

WOODS: I had a scholar on a few weeks ago talking about Sweden, and one of the points he made is that in the decades before the Swedish welfare state really took off, Sweden benefited from the fact that it had a largely free market. It stayed out of war, and so it had tremendous capital to draw on for the welfare state. Does Denmark have a similar history?

BJØRNSKOV: Yes. Denmark was the fourth-richest country in the world in the mid-1930s. We're now about number 15, so we're dropping slowly in the rankings. But until around 1960, Denmark was a very, very liberal [that is, capitalist; the word "liberal" is being used in the European sense – TW note] country in the European sense of the word. Taxes were lower than in the U.S. Regulations were easy, and the legal system was still protecting property rights very well. That gave us the wealth upon which we could build a welfare state, and we've been able to finance that through a couple of crises by reforming parts of it and maintaining what actually works.

WOODS: Is your impression that the Danish welfare state is more or less remaining stable, or is it in mild decline, or is it expanding?

BJØRNSKOV: It's in a mild decline, I would say. We recently reduced the benefit duration period, so you can now get unemployment benefits for two years instead of four. After two years, you go on the dole, which is much less money. We do know that we have a massive problem with an entire generation that's about to retire. It's going to be extremely important to figure out ways to finance that generation in terms of health benefits, in terms of pensions, and in terms of the very substantial claims they make on the welfare state. So there is a push in Danish politics towards trying to reform parts of the welfare state, and we are looking at Sweden where, for example, they have institutional vouchers in their schooling system. That seems to work really well.

WOODS: Let me read you a passage that really surprised me, and then I'll tell you why I find it surprising. And maybe you can tell me why it shouldn't be surprising. "Denmark is a society where citizens participate and contribute to making society work. More than 40 percent of all Danes do voluntary work in cultural and sports associations, NGOs, social organizations, political organizations, etc. There is a wealth of associations. In 2006, there were 101,000 Danish organizations worth noting in a population of just 5.5 million." The reason that surprises me is that I would have thought that a large welfare state or a large public sector in general would tend to encourage among the population the idea that anything that's charitable or anything that's outside the market nexus is being taken care of by the public sector already. So you don't need to worry about it. Yet here we have big public sector, big welfare-state Denmark, and yet a lot of volunteering going on anyway. How do we make sense of that?

BJØRNSKOV: It depends on what kind of volunteering we're talking about. The joke is that if two Danes meet they'll have a cup of coffee. If three Danes meet, they're going to form an association. We have this amazing history of having a really, really strong civil society that dates back to the nineteenth century. If you look at contributions to charity, the average American contributes 11 times more than the average Dane. What we do is we form tennis clubs, football clubs, choirs, and so on, but actual charitable work is mostly done either by the state or financed by the state. About half of all Danish development aid, official Danish state development aid, is funneled through the NGOs. So they're not really non-government. They're semi-government organizations. That unfortunately also goes for a lot of charitable work, except for what certain organizations do with homeless people. Because they don't fit into the boxes of the welfare state.

WOODS: In other words, the passage I just read is extremely misleading.

BJØRNSKOV: It's misleading in the sense that we have an incredibly strong civil society, but it's not doing charity. It's doing all sorts of other things that people value.

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PART II
Should the Government Spend Money on Alternative Energy?

Chapter 3
Wind and Solar Power? Don't Make Me Laugh (with Robert Bryce)

Robert Bryce is a senior fellow of the Manhattan Institute. In this excerpt of his appearance on my show, we discuss his book Smaller Faster Lighter Denser Cheaper: How Innovation Keeps Proving the Catastrophists Wrong.

WOODS: I would like to know what you have to say about what's fashionable these days in energy policy, which is biofuels, so-called green energy, wind power. What's wrong with that? Shouldn't we embrace all possible options when it comes to energy?

BRYCE: No.

WOODS: Good answer! (laughs)

BRYCE: (laughs) Absolutely not. This idea – the president has said I don't know how many thousands of times – "we're for all of the above." No, we're not for all of the above. We're for all of the ones that make sense. Let's agree that the bad ones we need to get rid of and quit supporting. Well, what are the bad ones? The bad ones are the ones that are not dense. Density is green, a point that I made in my last book, *Power Hungry*. The point I make in the new book, *Smaller Denser Lighter Faster Cheaper*: density is green. If we're going to be supposedly green, if we're going to protect the environment, we need small footprints. We need to have the smallest amount of incursion into the natural world that we can. On its face it makes sense, right? We don't want sprawl. We want compact cities. We want compact farms. We want compact energy.

The reverse of that is what we're seeing with the biofuel scam, in particular the corn ethanol scam, and what we're seeing with the wind energy business. I have a lot of critics from the left; I don't support wind energy. No, I don't. I think it's a bad idea. Why? Because of the energy sprawl, and that is due to basic physics, which is low power density. It's the same problem that afflicts biofuels. Power density of wind energy is one watt per square meter. If we wanted to replace coal-fired capacity in the United States with wind energy, we'd need to set aside a land area the size of Italy. We're not going to do it. But yet there's this steady drumbeat: oh, this is the answer. The same thing with biofuels. We've been scammed. We've been had by the biofuels crowd. The power density of biofuels is measured in fractions of a watt per square meter. You can't get there from here. I don't care what you're putting in your moonshine, it doesn't work.

WOODS: Why do you think environmentalists emphasize these forms of energy when nuclear power is pretty clean? Is it entirely because they are losing sleep about the safety of nuclear power, do you think? Or in terms of radical environmentalism, what do you think the real agenda is?

BRYCE: Well, let's take the last part of that. First, Tom, the radical environmentalists – and in the book I take issue with some of these points that have been by Bill McKibben, because I think he fits under that heading of radical environmentalist. McKibben has said that he thinks we need a 20-fold reduction in our hydrocarbon consumption. That's our consumption of coal, oil, and natural gas. Well, in the book I go through the numbers. Okay, so you want a 20-fold reduction in global hydrocarbon consumption. We're using roughly 215 million barrels of oil equivalent per day. That's in oil, natural gas, and coal combined. A 20-fold reduction would take us down to about 11 million barrels of oil equivalent per day. That's about the total amount of energy that is now consumed by India. Then we're going to have the entire planet run on that quantity of coal, oil, and natural gas? Today we're using over 22 million barrels a day just of gasoline. So the idea that suddenly we're going to have a 20-fold reduction and replace it with what?

So we can't count on unicorn farts to save us. It's not going to happen. We have to use the forms of energy that we have now and the ones that are proven that are scalable, are low-cost, and are abundant. That's coal, oil, and natural gas. So when you ask what the agenda of some of these environmental groups is, I think it's a very radical one. It's a romantic one that we're going to go back and live off the land, and we're all going to hold hands and sing kumbayah with Mother Nature. It's just not going to happen.

Chapter 4
The Moral Case for Fossil Fuels (with Alex Epstein)

Alex Epstein is the director of the [Center for Industrial Progress] and the author of [The Moral Case for Fossil Fuels].

WOODS: You've approached fossil fuels as a moral issue. In what way is it a moral issue?

EPSTEIN: I think ultimately everything in life is a moral issue, in that certain things have positive impacts on human life and certain things have negative impacts on human life, short term and long term, and we have different moral estimates of them. I think the justification for calling it *The Moral Case for Fossil Fuels* is based a lot on how we think about fossil fuels today.

There are really two views that almost everyone adopts to one degree or another. One is what's called the unnecessary evil view, that fossil fuels are an unnecessary evil, that they can be replaced by renewables, and that we should get off them very quickly. And then conservatives or even oil companies will counter with, no, they're not an unnecessary evil, they are a necessary evil because we can't get off them for a while. So their view is also that we should seek to get off them slowly, or as quickly as we can, but there's a farther off expiration date than the environmentalists tell us.

My view is that if you actually look at the relationship between fossil fuel energy, both its benefits and its risks, if you really look at those in a full-context way, it's an unbelievably positive thing that you should want more of, just as you would say: I'd really like more people in the world to have access to antibiotics. You wouldn't say, oh, it's a necessary evil because it has side effects. You'd say, someone is welcome to do something better, but as long as this is the best, we want more of the best.

WOODS: I hadn't thought of it that way until I read your book. I do need to ask right off the bat about the peak oil thesis. I don't see an index entry for it, and in the chapter on sustainability, I didn't see it spelled out or identified using that term. The peak oil people would say that somebody like you is too optimistic about the long-term prospects for fossil fuel use. You know the whole thesis, that we're past the point at which we're going to continue to see what we saw previously, which was inexpensive and abundant sources, and they say that production has been declining as compared with the amount of discoveries. What's your response to that?

EPSTEIN: I deal with the issue of peak oil, in a sense, extensively in the book, but I don't focus on that terminology because I think it's a very confusing way to think about the issue of resources. I think there are two basic things you need to understand about resources, and if you do, then the idea of peak oil is bizarre. One of them is just the standard economic point of substitution, which nobody seems to know in the energy industry: if demand increases relative to supply and the price of something goes up, that both invites competition to produce more oil, which is what we've seen with the shale oil, and it invites competition externally. Of course, competition is always invited in a certain sense, but it's even more of an incentive.

With most products, we don't think in terms of whether the way we're doing things today can be sustained forever. I'm sitting in front of a MacBook Pro. I didn't buy this, and nobody buys this, and thinks, can we make MacBook Pros for the next billion years, or are some of the materials going to get depleted? Well, who knows? Maybe some of them would get depleted. Maybe they become too expensive, and you'd do something else. Yet in energy there's this dogma that gasoline and diesel, and all of these other forms of oil, are just going to disappear. We're going to have peak production, and we're going to fall off a cliff. It's really a non-understanding of the role of the human mind in terms of making resource allocation decisions.

And that relates to the second point, a non-appreciation of the mind in the realm of what I call resource creation. I think this is a less understood point, and it's been made by Julian Simon, it's made by Ayn Rand, it's made by George Reisman in various ways. I'll put it in my own words: nature doesn't give us much in the way of resources. What we call natural resources aren't naturally resources. So, for example, aluminum: aluminum was not a resource 200 years ago. It's one of the most abundant metals in the ground, but we didn't have the knowledge to know how to turn that raw material into a resource.

It's the same with oil, and it's the same with every variety of oil. At the beginning you could only get oil from 69 ½ feet. That was the first major oil well in the U.S. Then you could go a little bit deeper. Then you can start to use high-sulfur oil because of certain innovations by Standard Oil. And today, the oil that we get from shale: that really wasn't a resource 20, 30 years ago. So if you get that, you don't think of it as there's a giant pool. There's this, actually, not that giant of a pool that we sort of drained half of. We might have used half of our current inventory. But it's more like, no, the world is just a giant ball of raw materials that we can turn into resources, and we haven't even scratched the surface.

WOODS: What would be the harm, though, in diversifying? That's the claim that's made: maybe we don't have to go completely off fossil fuels, but why don't we try to make more use of wind and solar power? I asked Robert Bryce this. I feel compelled to ask you because this is the sort of thing that college kids face all the time – propagandists on their campuses are talking about this kind of issue.

EPSTEIN: Sure, go ahead. I am more than happy for you to use whatever form of energy you want to buy as long as I don't have to pay for the lunch money and college of the founder's kids. And you are welcome to try to sell me energy that I would rather buy than the one that I buy.

There is a lack of economic education and ability to think carefully about the why of why we use something. It's this idea of we all collectively have chosen to use oil for 93 percent of our transportation, and maybe that's the wrong choice, so let's hold a vote. And, no, I went to the car dealership. I thought: do I need a car, first of all. And then I went there, and then I had certain options, and I chose one that runs on gasoline because it was the most cost-effective for my needs, in the same way that I bought my iPhone 6. And if that changes in 10 years, terrific. But that will change by people coming up with something better.

It's interesting that what people propose – what they desperately want to work – are the two worst energy technologies of the last 150 years, which are solar and wind. I live in southern California. I'm looking outside. It's sunny right now, but there are a couple of clouds. Wouldn't that affect the energy? And then there's this thing called night that we run into on a daily basis, which really restricts your ability to get energy from the sun. And then, of course, you know the wind doesn't blow all the time.

So what I talk about in the book is, there's ultimately a moral perspective that's driving us that really isn't focused on human life. It's a more religious perspective that our goal should be to not impact the world around us. Solar and wind are seen as natural, as taking in the wind and sun in a harmonious way with nature, which turns out to be completely false. But in any case, that ideal is what's driving this rather than their actual ability to improve human life, which is very, very low right now.

WOODS: One of the objections that you're bound to run into, and that you've anticipated in the book, is the issue of climate change and the relationship between fossil fuels and climate change. We'll get into that 97-percent-of-scientists statistic in a minute, but you have a number of unique responses to this. One of them has to do with looking at the annual rate of climate-related deaths today as compared to the past. This is a brand new way of situating ourselves and contextualizing this issue, at least to me. Can you talk about that?

EPSTEIN: This is why the book is called *The Moral Case for Fossil Fuels*. One issue I raise in the first chapter that I have found very clarifying and that many who read the book find very clarifying is the issue that we need to define what we mean by moral, how we measure moral, what our goal is from the outset. And I am very explicit: I am a humanist. I believe that human life is the goal – human flourishing, human happiness – and as I put it, human life as a standard of value. And it's really, really important that in every issue we discuss we're clear about, okay, are we orienting ourselves towards human life, or have we been inadvertently disoriented?

It turns out there's a movement, and the leading environmentalists, if you look at what they say – and in the case of fossil fuels I document pretty extensively what they say – they say explicitly, no, human life is not the standard of value. The standard of value is human non-impact. Our goal should be to leave nature alone as much as possible, and as Bill McKibben puts it, "human happiness would be of secondary importance" in the kind of world that he wants. The reason that I am prefacing all the climate stuff with this is that it turns out that most of the confusion about climate involves failing to carefully think about things in terms of human life.

Now, you get the question: do you believe in climate change? This is a very vague and manipulative question. What's interesting is that people assume that if there is any man-made climate change, that must be a bad thing. The expectation is if you can demonstrate that we have changed anything in any way, you have hit the rhetorical jackpot. And my view is, wait a second: how have we changed climate? Isn't it possible that we can change it positively or that it would be mild or inconsequential compared to just about every other issue? So for example, especially if we learn in school, hey, CO_2 is plant food, isn't it possible that putting more CO_2 in the atmosphere might yield a net benefit?

I am not saying that this is how it turns out or not. That's not the point. The point is that we assume that it's negative. We assume that any change we create in our environment must be negative, and we assume that every element that the rest of nature contributes to our environment is positive. I call this human racism because we have a bias against our own race. Anything we change is bad. Anything other things change is good.

If we strip ourselves of that bias, the question to ask is: if we look at the big picture, how are the CO_2 emissions impacting human life on their own, and then how are they impacting them in the context of we're getting all this energy. They are a byproduct of getting this energy. And 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, and we've mined it probably more extensively than anyone has. You see in the book it's just crazy, because since the beginning of these statistics being collected, the numbers just plummet. So we're 98 percent below where we were in the '30s, and last year was one of the record lows, if not the record low, of climate-related deaths in the world. You're talking 30,000 people compared to millions in the '30s, and that's a much smaller population. So think about it. Less than 30,000 people – this is supposedly the worst year in climate history, and what that points to is they're not looking at it by the standard of human life. They just think it's inherently wrong if we're putting CO_2 in the atmosphere and impacting anything. And we are impacting something. My idea is that, well, in the big picture, this impact is part of something very, very good and we should absolutely keep going.

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

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

So 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 what energy allows us to do is to master that. In the case of drought, through technology we're progressively really redefining drought or almost making it nonexistent in many ways. Because once you can purify water, which we can't do as well as we want to be able to in the future, but to the extent you can, to the extent you can move it, and to the extent you can move crops, as a friend of mine put it: drought used to mean I die; now it means the price of strawberries goes up by a dollar.

WOODS: Well, in fact, I think this is largely what you're driving at in your chapter on the energy effect and climate mastery: that the energy that we get from the fossil fuels helps us to cope with various aspects of climate that have plagued human beings for an awfully long time. So it's wrong to think of fossil fuels as a negative – that fossil fuels are creating climate change and this and that, and we'll get to climate change in a minute – since it's fossil fuels precisely that allow us to cope with these acts of nature that we have just thought are unstoppable or that certainly that their consequences are unstoppable, but it turns out they're not.

EPSTEIN: Yeah, and I like the analogy of antibiotics and disease, although I think the case for fossil fuels is even stronger than that. The starting point to think 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. So if somebody says, well, the antibiotic will create – what if they create a five percent disease multiplication, which these kinds of things can do in complex systems, would you say well, you shouldn't use antibiotics? You say, no, let's use the technology – this kind of technology both to cure all the "natural" diseases and then any diseases that emerge as problems as we're trying to solve the first problem. But overall you're going to be much, much better.

The same thing with climate. The main thing with climate is it's 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 the kids in your family living, and even the majority of them, 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 provides us 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. That's the baseline before worrying about, well, are we making the natural climate a little bit more volatile? But one thing that you notice is we never hear about climate mastery. It's just this Bizarro world where 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 unfortunately has a lot of really bad policy implementation.

WOODS: Alex, you mentioned George Reisman earlier on. I'm reasonably certain that Reisman has said that supposing for the sake of argument that the climate change, global warming people are correct, if it would require in effect the dismantling of industrial civilization to reverse it, wouldn't it be a better approach to simply try to figure out, taking all our industrial ingenuity, how we might cope with it? Is that more or less where you come down on this in the hypothetical situation that these people are right?

EPSTEIN: Well, I definitely recommend George Reisman's stuff on this to anyone. If you just search his name and resources and global warming, and I certainly was influenced a lot by just reading his stuff. He does say, look, this is a serious issue. Why not just view it in the same way as if the rest of nature had caused the issue? That is, if this is a natural byproduct of our means of survival and flourishing, then take it as if there's a natural fluctuation in storms. Now, I would qualify this in the sense that we can talk about climate danger; you do need to investigate these things. So part of what I'm talking about so far is mostly common sense, although it's never utilized because we're not taught to focus on the human. I researched the different quantities involved and included a lot of them in the book. But you have to investigate: if somebody says there's a serious threat, and you know that you're making some change in the system that's not completely trivial, that's important to investigate. Imagine if it was the kind of scenario of, oh, we're becoming like Venus. That's like almost someone declared war on you. It's an emergency situation. So we can't rule it out based on first principles. But first principles, so to speak, can tell us that we have to look at the full context of human life, and so if you were talking about labeling this as some sort of mass rights violation, you would have to reach an unbelievably high threshold of danger. What we're seeing is the climate is becoming less dangerous. So it's a non-issue except for maybe some theorists should be keeping an eye on it in case something changes.

WOODS: Can you take on, as you do in the book, this claim that we hear all the time that 97 percent of scientists say that there's global warming and that human beings are the primary culprits? How do you break that down?

EPSTEIN: Well, can we just go Socratic dialogue right now?

WOODS: Sure.

EPSTEIN: Okay, so what would you say as a person asserting that?

WOODS: Well, I would say that this means that really there is no debate. You are being completely unreasonable if you want to take a contrary position to that of the vast majority of specialists.

EPSTEIN: And so what's the position that's unreasonable for me to take?

WOODS: That either the temperature trends that they are talking about are non-existent, or they're being caused by something other than human activity.

EPSTEIN: Okay, but that's not what I said. That's not what a lot of people said. What I said is I'm against President Obama's and the UN's plans to restrict the vast majority of fossil fuels over time. So what does that have to do with it? How does it prove me wrong to say that the majority of warming has been caused by human beings?

WOODS: It doesn't prove you wrong, but it shows that you have little concern for human welfare, because certainly we need to stop this trend, and we can do it by reducing fossil fuel use. I hate being a UN bureaucrat, by the way. I'm doing this just for you, you know.

EPSTEIN: I appreciate that. I'm just curious what makes you think it's bad, because from my reading of the statistics I've studied fairly extensively, every indicator of human life has been going up as we've been using these fossil fuels.

WOODS: Well, that could be, but we could get to a tipping point at which the benefits no doubt still exist, but they have to be weighed against some catastrophic results in terms of ocean levels and ice and melting and all kinds of concerns of this nature and fantastic cases of storm activity that wouldn't have existed in the absence of this. We have to weigh these things against each other.

EPSTEIN: So I'm just curious. How much warmer have fossil fuels made it?

WOODS: All right, well, in this case they'll say so far not that much, and most of the warming took place before we had such intense use of these fuels, but look at the trend. They would say, look at the way it's going or could go. I know you could come back with, well, what's been going on in the past 15 years, and I guess they've got four dozen excuses for that.

EPSTEIN: What you have is a 0.8 degree Celsius, or 1.31, 1.4 degree Fahrenheit change over 150 years, and a significant portion of that occurred when we weren't using large amounts of fossil fuels. This is an amount of temperature change that would be imperceptible were it not for the fossil fuel civilization producing the science and technology to have the precision instruments to measure it. And this is viewed as a catastrophe, that if you can establish that we caused the majority of the 0.8 degrees in 150 years, then that is this death blow against fossil fuels, which has in the last 150 years increased life expectancy by decades and made it possible for billions of people to live. It just shows that the operational standard of value for people is not human life. It's human non-impact.

So what they're saying is: see, Alex, we have impacted things! And my response is, I didn't say we haven't impacted things. Build a building in Arizona, and you have a heat island effect. The center of Phoenix is 10 degrees warmer than the outskirts. Everything we do impacts things.
My question is: overall, is it good or bad? And I think this is really, really good....

Now, as a matter of fact, the same lack of precision that leads to this kind of garbage reasoning on the significance of human beings causing a majority of warming, that same caliber of reasoning is at work in coming up with this 97 percent, which is just bizarrely wrong. Essentially they equate anyone who doesn't completely attack it as agreeing with it. The vast majority of these papers do not say over 50 percent, but then the author takes it as, well, if they say any warming at all, then that's over 50 percent, because maybe they didn't dispute that it was major. It's remarkably dishonest. This pretty much outright dishonesty about what scientists say enables the administration to just say case closed. Nobody can debate with my executive power to restrict fossil fuels – no evidence, no logic, no positive connection to human life, and yet, this sort of scientific certainty, or pseudo-scientific certainty, and you wonder how did eugenics get practiced? How did Lysenko's non-genetics in agriculture get practiced? So this is that kind of methodology – just the butchering of science.

WOODS: Alex, take a minute to address the pollution issue, which would be the other strike against fossil fuels.

EPSTEIN: One thing I notice the more I look at fossil fuels is that the strikes against them are some of the biggest benefits. Pollution is the issue of environmental quality. How does using fossil fuels impact environmental quality? Ask that to 100 people in the oil industry, assuming they've never heard any of my work on this, and at least 90 people will talk about only negative things. Look, if you're in oil sands in Canada, we have fewer tailings ponds than we used to. Or we're trying to restore all the trees that we had to cut down, and we're trying to use the road less.

Okay, go back 300 years ago, before we used fossil fuels. I make up this character Thomas, because Thomas Newcomb invented one of the modern steam engines now 302 years ago. Take Thomas from his environment back then and bring him to our environment now and say: which is better? And he would look at you like you were asking him an insulting question, because obviously this environment is amazing.

Think about it. I had so much trouble getting clean water. Either I had to walk a long distance or the local brook would have bacteria or giardia or something in it, and now I can just turn on a faucet and I have clean water, as much as I want whenever I want it. The air: I used to be huddling by wood or have massive indoor air pollution, and now I can even go live in a place near a supposedly bad coal plant. How about agriculture, this food you're surrounded by. Environment means surrounded. Our surroundings are so healthy compared to what they ever have been. It's just remarkable. It's made possible by a process of using energy to fuel machines that can then transform the inhospitable environment of nature to a far more hospitable human environment. Fossil fuels, their energies are the ability to use machines to improve our lives, and a huge part of that is transforming environmental threats into either an environmentally neutral state or an environmental resource.

So there are certain chemicals, for instance, oil – you can take oil, which used to be a nuisance, and turn it into an artificial heart. It's just remarkable how good our environment is. Now in the process of improving our environment, aren't we adding risks and byproducts? Well, by definition, whenever you do something, you add risks and byproducts that wouldn't exist before. There were no computer problems before there were computers. But there were no computer solutions before there were computers, either, and the computer solutions far outweigh the problems. So with fossil fuels, there's definitive evidence that you can have a lot of health hazards if you deal with them the wrong way pollution-wise, and that's why it's important to have laws that protect property rights, and it's important in conjunction with that to use technology to improve them.

But the common approach is to say, well, if there's a problem with them, let's renounce them, and let's go to this other thing that seems problem-free. And guess what? They used to say that about nuclear: nuclear is really bad. And that's a whole other discussion and mythology. So I guess coal is better? Oh, no, coal is evil. Let's go to gas. Oh, no, gas is evil. Let's go to solar or wind. As soon as solar and wind, if they ever become practical, which doesn't seem to be very close, come into widespread use, what are the human, non-impact people going to say? They take up too much space. Look at all these toxic chemicals. How are we going to dispose of the stuff? There's all these waste lands; we've irreversibly contaminated the land. The solar panels emit sulfur hexafluoride when you make them, and that's an even more potent greenhouse gas than CO_2. So, again, human life as the standard clarifies a shocking number of these issues.

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PART III
Is a $15 Minimum Wage a Good Idea?

Chapter 5
High Minimum Wages Hurt the Vulnerable the Most (with Diana Furchtgott-Roth)

Diana Furtchtgott-Roth was chief of staff to the President's Council of Economic Advisers from 2001 to 2002, and the chief economist of the Department of Labor from 2003 to 2005. She now runs economics21.org.

WOODS: ...I guess what annoys me the most about the fast-food protests is the mentality according to which if we want people to live in comfort and dignity, well, wishing will make it so. Why, we simply pass a law, and from now on you shall live in comfort and dignity. Is that what eats away the most at you also?

FURCHTGOTT-ROTH: I think it's very important that people should be able to live in comfort and dignity, but sometimes a fast-food job is the only job they can get when they are just starting out. I think it's not really possible to expect that someone who is in high school or maybe just out of high school is going to be able to get a job that enables them to live on their own with an apartment. I know that my first job was scooping ice cream at Baskin-Robbins. I made about $3 an hour. It was a summer job when I was in college. Most of these jobs are not meant for people to live on. About half the people with minimum wage jobs are under 25. About half of them work part time. So this is an entry-level job that will get you to the next rung of the career ladder, but it's important that these entry-level jobs are there for people without skills the way I was one summer in high school, and I needed money.

WOODS: These days it's become fashionable even among economists, oddly enough, to say: listen, you naysayers, the statistics seem to show that a modest increase – of course, what they are calling for now is *not* a modest increase – in the minimum wage doesn't seem to have serious employment consequences. Now, my response to that in part is that there would have been more employment in the absence of the minimum wage hike. But also, given how few Americans earn the minimum wage, it's not going to have a huge employment effect in the aggregate anyway, but it will have a big employment effect on the most vulnerable.

FURCHTGOTT-ROTH: That's right, yes. Fewer than 3 percent of employed Americans earn the minimum wage, and that is because when they get a minimum-wage job, they move beyond it very quickly, or they start out with wages above the minimum wage because they have commensurate skill. What's important is that there be an entry ramp to the labor markets for everybody, low skill included. One particularly vulnerable group is African-American teenagers, who have an unemployment rate of 33 percent. That was in August 2014. We want to make sure that teens all over, including African-American teens, have an opportunity to have a job and to be productive.

Right now the minimum wage is $7.25 an hour. On top of that, employers pay Social Security, workman's compensation, and unemployment insurance. That brings the cost to the employer to about $8 an hour. So that means if you have skills worth less than $8 an hour, you are not allowed to work in the United States. Raising the minimum wage to $10.10 an hour, as some people have proposed, will mean that if you have skills under $11.25 an hour, you will not be allowed to work in the United States. That's just un-American, to say that low-skill workers do not have the right to work. No one is going to hire somebody with $5-an-hour skills if they have to pay them $11 an hour. They are going to hire somebody with $11-an-hour skills, but the $5-an-hour skill people deserve jobs, too.

WOODS: Well, the propaganda surrounding this whole campaign makes it seem as if the choice we have is either people earn $7.25 an hour, or they earn $15 an hour. The possibility that they might earn zero, because they won't be hired in the first place, is simply not raised. Again, the mentality is, if we want something, we don't try to increase capital accumulation to increase prosperity for everybody. We just wish. We pass laws.

In this initiative, they are trying to get $15 an hour, which is more than a 100 percent increase. Are they really claiming that this will have no employment effects, or that the employment effects will be so negligible that they are not worth thinking about?

FURCHTGOTT-ROTH: First of all, who the "they" are is interesting. It's not clear that it is fast-food workers. If you were a worker and you wanted a raise, and you were being paid $7.25 an hour, you wouldn't all of a sudden go out and ask for $15 an hour. You might ask for $9 an hour, or $10 an hour. It's unlikely that anyone would right away ask for their wage to be more than doubled.

The proponents of this are union-based. They are groups like New York Communities for Change, Jobs with Justice, Fast Food Forward, Fight for $15. They are organized mostly by the Service Employees International Unions, which funds Fast Food Forward and other groups such as Jobs with Justice. They get people to come out and demonstrate for $15 an hour and pretend that it is really fast-food workers who are out on strike. The SEIU does not really care if there are employment effects at all. They are not representing these people. Jobs with Justice doesn't have to file the financial disclosure forms that labor unions have to file. It's important that when someone comes out on strike, when someone is demonstrating, that we see that this is really representative of the group.

So with the union, for example, they are elected by their members. Their finances are transparent. They are revealed to the Labor Department, and there are certain criteria that can apply. For example, members can decertify a union if they think the union is not doing a good job, or they can elect new officers. None of this is true with these groups known as worker centers, who are organizing these strikes. The fast-food workers cannot decertify them. They cannot get rid of them. They cannot see what their finances are. And the object is to unionize these workers because union membership has been declining steadily over the past 20 years. Unions are not getting enough union dues that go towards the political contributions that make them powerful, or to pay the union officials. So that is who is organizing these, and no, they don't care if additional workers are unemployed, as long as they get more union members.

WOODS: I see. So the economic analysis is very much secondary, if it exists at all. This is simply an attempt to get publicity and to extend the influence of these organizations, and this could very well be at the expense of the jobs of who knows how many people.

I wonder if you could tell us the story about when you were on On Point with Tom Ashbrook, on National Public Radio. You were on with a guest named Terrence Wise, whose story was that he'd been working at fast-food restaurants for 18 years, and he was described as 34, homeless, and with three daughters. What happened next in that conversation? Or after the conversation?

FURCHTGOTT-ROTH: Well, I felt sorry for him, and I wanted to suggest that he get some kind of training, and there is training available at one-stop centers, there's community college training, and I wanted to call him and suggest he get training in the health-care area, which is one of the fastest growing sectors. With training you can be earning a very, very good salary with opportunities for upward mobility. So I called the producer of the show, the one who booked me on the show, and I said, could I have contact information for Terrence Wise. Much to my surprise he emailed back and said, I don't have his contact information, but let me give you the name of his publicist. So he gave me the name of the publicist, which turned out to be someone called Danny at Berlin-Rosen. I was very surprised at this. I went to the Berlin-Rosen website. I found that they have a lengthy list of union clients, including the SEIU. Their website says, "We help public relations clients articulate their story in a way that persuades and moves." So Terrence Wise might have been the product of a public relations strategy, because it's very unusual that someone works in fast food for 18 years, and is homeless, and has three daughters. It just doesn't make sense.

WOODS: No, and of course, the turnover rate at these places is extremely high precisely
because people understand it's a step on the ladder. It's not the ladder itself.

FURCHTGOTT-ROTH: Right, there's about 150 percent turnover rate, which is why, by the way, the SEIU wants to unionize the fast-food area. Because in order to join the union, it's not just that you pay union dues. You have to pay a certain amount to join the union. It varies. It's on the order of $50. So they would get all these $50 amounts for people who were joining and then who would leave the union.

And it's also part of the effort, by the way, to have joint ownership of McDonald's and the franchises. This was the National Labor Relations Board move, and that whole attempt was to make McDonald's unionize all the employees in the franchises. That way all this turnover could work for the benefit of the SEIU, because they would get an influx of not just union dues, but the initiation amounts for signup.

WOODS: There is a very helpful illustration of the effects on employment of increases in the minimum wage that we find as of June 2013 on U.S. military bases. What is that lesson?

FURCHTGOTT-ROTH: Well, the lesson is that these U.S. military bases cannot operate fast-food centers with their high minimum wage. President Obama raised the minimum wage for contract employees, and some of the fast-food restaurants are pulling out of the military bases. So what that meant was that in May, three McDonald's restaurants closed on Navy bases, and another on a Marine base, and others have asked to be released from their service contracts because they cannot operate with a $10.10 minimum wage. And so it's not just the job opportunities for the low-skilled workers that are lost. Service members don't have the opportunity to get that inexpensive meal. Because if you go out for fast food with your family, you can go out with a family of four and spend about $20 or $25. If you go to a higher-paying restaurant, a family of four, it's about $50. It basically means you can't go out to eat when you're on a low budget.

WOODS: And that brings up another topic I wanted to raise with you: income inequality. In June of this year, the Manhattan Institute released a set of essays from economists and writers grappling with this question of inequality. How did you guys handle that issue? Is it to say there isn't as much inequality as you guys think and the statistics have been massaged, or yes, there's inequality, but who cares? Or is it both?

FURCHTGOTT-ROTH: What we did was we invited half a dozen authors to a conference and to write short monographs on the subject so that anyone could understand it, and it is on our website economics21.org. It's called *Income Inequality in America: Fact and Fiction*. And the choice of data are very important and also the demographic issues.

So one reason that we have more income inequality is because we have more two-earner families. The people who talk about income inequality often compare it to the 1970s, but what happened in the 1980s? Millions of women moved into the labor force, and if you look at characteristics of the top fifth of income earners, they have two earners. If you look at the bottom fifth, it has about half an earner – one earner for every two households, because it has a lot of retirees, it has a lot of singles, it has a lot of unemployed. If you look at the middle fifth, it has one earner. So the best way to have income equality is to require that every household must have only one earner, and every household must have one earner. So just one earner per household, and if there's two people who want to work, well, just too bad for them, because it's these two-earner couples who help drive the perception of inequality.

We also have essays on consumption inequality, because a lot of the studies on inequality measure what's called market income. That's income before taxes are taken out and before transfers are added in. The top one percent in 2011, the latest data we have, paid 35 percent of all taxes. The top five percent paid 57 percent of all taxes. So looking at income before taxes are taken out doesn't really give a true perception of well-being. These taxes went for programs to help low-income individuals such as Medicaid, food stamps, unemployment insurance, those kinds of programs. So when you look at the well-being, how much more are the top fifth spending than the bottom fifth, and you look at it over the past 25 or 30 years, the top fifth have been spending about 2.5 times the bottom fifth if you look at it on a per-person, household basis. In other words, per person someone in the top fifth has been spending about 2.5 times the amount of someone in the bottom fifth, and this has been fairly constant. And why do we get this when incomes have been going up? There are a number of reasons – one of them being the two earners in a household, but also those changes in taxes and transfers.

WOODS: I think when people are thinking about inequality, they're not thinking in terms of quintiles. They're thinking about the top of the top. They're thinking about extremely wealthy people and their ostentatious displays of wealth, which seems to grate on some Americans. Now, from my point of view, nothing that these people enjoy in terms of consumption hurts me in any way. They are not taking anything from me. I earn a lot of money from public speaking. My speaking fees are in no way affected by the fact that somebody has a yacht. My book royalties have nothing to do with the fact that someone has a private plane. It doesn't affect me at all. I'd like to have those things, but I am perfectly content in my life without them, and the idea of obsessing over the fact that somebody else has them is so utterly foreign to me that I can't even get inside the heads of people who are consumed by this. But that is something that I think people would say to you, which is that we're talking about the top 0.1 percent, and these people have all this wealth, and they use it in socially irresponsible ways.

FURCHTGOTT-ROTH: Well, there aren't very many of these people. It's just the tiny, tiny fraction that, yes, they do make headlines, and it's the politics of envy which is driving it. There are all kinds of reasons that people make a lot of money. People pay a lot to hear Lady Gaga, for example, so she's very well off. She sells a lot of CDs and audio downloads. There are other people in the financial area who make a lot of money. It's interesting that the Treasury compiles a list of the top 400 income earners every year – not by name; you can't identify them. But what is interesting is that these people turn over a lot. So for the past 20 years, for example, you don't have the same people in the top 400. Some of them are there because they have made a capital gain, or they have sold a large house, and then they go back down again.

But the important thing to be concerned about is not inequality, but mobility. If you start out as I did, with a minimum wage at Baskin-Robbins, then you get the education to be able to work up to the second, third, or fifth quintile, and that's what we need to be focusing on.

It's a tragedy that children in inner-city schools are relegated to schools where the graduation rate from high school is only 50 percent. They can't have any chance of a well-paying job or upward mobility if they don't even have a high school diploma. We should close these schools down. We shouldn't be sending our children to schools where the graduation rate is only 50 percent. If they get a high school diploma, and then we guide them to a community college, not even a four-year college, and we guide them to a high-return profession such as one of the health services professions – physical therapy or occupational therapy or being a radiology technician – then they're earning about $40,000 when they graduate from community college. Or if someone is mathematically inclined, something like computer programming. So the big challenge of our time is education and mobility, because earnings are return on skill. If you don't have the skills, you don't get the earnings. And that's what we need to be working on.

Chapter 6
Robert Reich Is Just as Wrong as Bernie Sanders (with Robert P. Murphy)

Robert P. Murphy, who holds a Ph.D. in economics from New York University, is Research Assistant Professor at the Free Market Institute at Texas Tech University and a Research Fellow of the Independent Institute. He is the author of numerous books, most recently Choice: Cooperation, Enterprise, and Human Action. *In this discussion we review* **this video** *by Robert Reich, former Secretary of Labor.*

WOODS: Let's begin with the great moral principle that Reich identifies at the beginning of the video that he claims a majority of Americans believe in. What is that great moral principle, and what's wrong with it?

MURPHY: He says that a majority of Americans, whether Republican, Democrat, or independent – so even right there, that just throws me, that that's the way he's thinking – is that no one who works full-time should be in poverty, nor should their family. He's sort of guaranteeing his conclusions, because given that no one wants to be immoral, and we want to live in a moral society, then how do we guarantee this outcome? And then to him, it's obvious; the one obvious thing is that you have the guarantee of a $15 minimum wage.

WOODS: I want you to give examples from your piece that help us understand why this seemingly benign statement is actually hopelessly confused.

MURPHY: The main philosophical point, I think, is to say it really doesn't make sense. It can't be true that for a society to be moral – first of all, the "society" is not moral; he means *individuals* are performing actions that are moral or immoral. But for everyone to be behaving morally, it can't be necessary that anyone who works full-time in such a world or amongst such people necessarily is above poverty, because poverty is something that is partly dependent on the physical world and resources at your disposal and technology and so forth. It's not merely a matter of morality. For instance, you could say, to live in a moral world, everyone agrees that you shouldn't eat your neighbor. Or you can't go and slaughter kittens for sport. That makes sense. But it doesn't make sense to say: in a moral society, anyone who works full-time necessarily will live above poverty.

I gave an exaggerated example just to make the point. I said, what if a giant asteroid hits the Earth, kicks up all kinds of dust and soot, and blocks out sunlight – so crops don't grow, and you can see the ramifications on the food chain. I said, in that kind of catastrophic situation, surely over the next several months, billions of people would die. And that's not because the governments around the world all of a sudden decided to behave immorally or more so than they were the month before. It would be because of technological constraints and scarcity. And that's just the way it is. And so in such a world, there'd be plenty of people who could be working full-time, and they would still starve to death, and so would their kids, and that wouldn't be a reflection on the inhumanity of man. It would just be, wow, it's terrible that asteroid hit.

So I'm just trying to get people to see that there are objective features of the world, and that to try to mix morality and people's physical conditions and how much they get paid for an hour of their labor, is really to mix things inappropriately.

WOODS: And of course, it would mean that basically nobody lived in a moral society up until maybe the 20th century, because if you think of the conditions people have lived in since the beginning of recorded history, pretty much nobody has been able to live outside of poverty, no matter how many hours they worked, because of the physical constraints that they faced in a world of great scarcity. So the idea that this could be the criterion of what's moral is a category mistake.

Tell me about your example involving two employees, one with no kids at all, and the other with 15 children, because it's a good one.

MURPHY: If it's really true as Reich says, that a worker who works full-time and his family ought to live above poverty, then let's say we've got two workers. They're working at the same place of business for the same boss, and they're doing the same job. There are two different guys doing very similar things, next to each other, perhaps, on an assembly line. And one worker has no kids, and the other worker has 15 kids.

A tenet of progressive thought is "equal pay for equal work." Now surely, if these two workers are doing the same job, then you would think that they have to get paid the same. And yet, the one guy with 15 kids clearly needs more income to keep him and the 15 kids out of poverty than the guy with no kids. And so what happens there? So I said, well, I suppose one escape hatch is to say, pay the guy with 15 kids enough to make sure he and his kids are above the poverty line, but then pay the very same dollar amount per hour to the guy with no kids, because you also have to satisfy the principle of equal pay for equal work.

And I said, isn't that odd? That means if you were in a society that was just barely meeting the moral criterion, that the wages of millions of low-skilled workers would be determined on the margin by how many kids the guy with the most kids in the country happens to have. And if he has another kid, then the next day, millions of people have to get a raise, because he's got to get a raise

WOODS: I would be pushing for that guy to have as many children as possible, because we'd all get a raise and that would improve everybody's standard of living.

I know people are waiting for us to get into the strictly economic arguments, which we will. But the way of thinking here is just so – juvenile? I don't know quite what the word is. You say, "What if the person who works full-time is doing a bad job?" Would we be violating Robert Reich's widely held moral principle if the employer can fire this person? Because presumably, even Reich would admit that if a worker shows up, as you say, for 40 hours a week, and then – I'm quoting you – "does nothing except swear at customers and light inventory on fire, that the employer is allowed to fire the guy and pay him $0."

Well, if Reich is okay with an employer paying $0 per hour to a worker who contributes nothing, what about a worker who contributes only $14 per hour? So here's your point: why is it immoral for an employer to pay such a worker only $14 per hour in wages if that's what that person produces? What would be wrong with that? And how do we know that everybody who's worth talking about, apparently, produces at least $15 per hour worth of value? Has he investigated this? If so, how?

MURPHY: What I'm trying to get people to see is that if there's someone who's really working hard, is struggling, has a bunch of kids or whatever, everybody is rooting for that person and wants him to do well and not to live in poverty. But the point is, how can that be a moral principle when clearly, in other scenarios, we can easily imagine that if a worker is producing a low amount of output or value to the employer, the employer is allowed to not just give charity to the person? It's crystal clear in a case where the worker is being a jerk and is not contributing, that the employer is allowed to fire the person.

But what if there's somebody with five kids who shows up to work and swears at customers and lights the inventory on fire, and the employer lays the person off – are we living in an immoral society? The person could say, hey, I'm willing to show up to work for 40 hours a week. And so this alleged moral principle just starts cracking when you try to apply it.

WOODS: Let's move on to the more strictly economic arguments here. He says that if anybody is worried that a $15 per hour minimum wage is going to have disemployment effects on people who are lower skilled and, by implication, maybe can't produce $15 worth of value to an employer per hour, we shouldn't worry about this, because, he says, "More money in people's pockets" – that is, if people are earning these higher wages – "means more demand for goods and services, which means more jobs." So he looks at the economy in this extremely simplistic way, that the economy is just dollar bills buying consumer goods, and then people are employed, and then they buy more consumer goods, and that's the entire economy.

Now, what you point out here is that there's no nuance in this argument at all. He is simply saying that increasing wages will mean more money in people's pockets, which will create jobs when they go out to buy things with that money. I think there is more than one problem with that, but tell me one.

MURPHY: One thing is that again, there's no caveat, there's no nuance. He didn't say something like: there are different forces at work, and on balance, if we raise the minimum wage from $7.25 per hour to $15 per hour, the effect of workers having more money and (since they don't save much) going out and spending it and increasing demand, will more than offset the disemployment effects from the fact that their labor is now more expensive. And so on balance, I think that that will help employment. He doesn't say that. He calls it "fear mongering" to say that a higher minimum wage will result in disemployment.

And then he gives the argument you just said – no, actually, on the contrary, more money in workers' pockets will mean more jobs! If that's true, if it's a win-win, then why not push it up to $50 per hour? Or at least why not keep pushing up the federal minimum wage until unemployment is basically 0 percent? I mean, I suppose you could have the argument that once everybody has a job, then there are no further job gains to be had. But the point is, he doesn't give any nuance. So it is entirely appropriate to just exaggerate it and say, okay, why don't we just push the minimum wage up to $30 per hour? Because the arguments that Reich is giving allow for that. It's not our responsibility to get into his head and say, well, actually, he could have said such and such. That's not what he said. The whole point of this video is to make it look like any opposition to a $15 minimum wage is just completely Neanderthal, advanced by people who are either lying or idiots. And so the fact that he's making arguments on their own terms that would justify a $50 minimum wage is definitely a strike against it. So that's one huge problem.

Beyond that, it's a Keynesian mentality: the thing that generates employment and jobs is having workers go spend money and not save it. That's entirely wrong, too. If you want to get full employment, you just have flexible wage rates. You don't need to make sure there's adequate demand for final goods and services. That's not really the important thing. You need to have flexible wages.

WOODS: He conceives of the economy entirely from the point of view of consumption, that all we need to think about is somehow getting money into the pockets of workers so that they can go out and buy things. Consumption is what makes the economy go.

Well, then imagine an economy where I've got some dollar bills and I go and spend them on a hat. The hat maker does not plow any of that money back into his business. He takes that money and buys three cartons of milk. And the milk producer buys a new shirt, and the shirt producer.... But no wages are paid, because that's not consumption. No capital maintenance is undertaken, because that's not consumption. No new businesses are opened, because that's not consumption. You would see that pretty darn quickly, the capital structure would collapse. And we would revert to barbarism. So obviously there's a little bit more to the economy than just circulating dollar bills around.

Also, if it's true that we are making people wealthier and society better off by artificially increasing the wages we pay them, then why don't we artificially increase the amount of money we pay to, say, the lumber industry? Why don't we say that lumber prices should be raised by the government as well? Because then if we give more money to people in the lumber industry, *they'll* have more money in *their* pockets, and when they go and spend that money, that will create more jobs, and that'll be great. And then maybe we could make even more jobs by increasing the prices of steel and lumber and plastic and everything, because then all those people will have a lot of money to spend.

You see what the problem with this is: the more a business has to pay for lumber, steel, labor, etc., the less profitable it is, and the more rickety and unsustainable the whole structure becomes.

MURPHY: Unfortunately, a lot of progressives would endorse that argument if it comes to farmers or having a tariff to raise wages for auto workers. So probably to really zing 'em, you'd say, should we have higher bank transaction fees in order to give more money to the capitalists, so *they* can go out and spend more? And they might say, well, no, we don't want to give more money to the capitalists.

WOODS: Yeah, that's right; exactly.

Toward the end of his presentation, Reich says that "studies show" – and this is something that you've talked about on this show before and in some of your writing – "that these higher minimum wages bring more people into the employment pool, and this gives employers more choices, and therefore, they have to have less turnover."

Let's take this claim apart. Suppose some extremely menial job is now offering $15 per hour. Yeah, that does increase the employment pool; more people will now want to apply for it. But what that really means is that some people who would never have dreamed of doing that job, because they would have felt they were too qualified to lower themselves to it, well, their dignity doesn't matter that much if they can now get $15 per hour for it. So now, the low-skilled people who would normally be competing among themselves for that job *are now competing with much more educated, highly skilled people for the same job*, because, as Robert Reich says, more people have been drawn into the employment pool. And so the people who are the most vulnerable and have the fewest skills now have to compete with people who, if the wage had been lower, wouldn't have dreamed of competing with them. How does this help the people at the bottom of the ladder (he asks rhetorically)?

MURPHY: You're right there, Tom, that even on the face of it, what he's claiming makes no sense. Beyond that, the studies he's talking about – he doesn't link to the studies, so I don't know – but the ones I'm familiar with, and I've seen this argument before. Walmart recently voluntarily raised the wages it was paying – or it might not have been voluntary; it might have been partly to get people to stop picketing and so forth.

But it makes sense for any individual company, perhaps, to offer wages slightly above the industry standard for whatever line of work they're in. And one of the reasons would be to get a better quality applicant so there's less turnover, and so forth. And that makes sense, as long as it's any *individual company* doing it relative to its competitors.

It does not follow that if *every employer in the country* is forced to pay more, *every employer in the country* now will have such a huge pool of workers applying and will be able to be choosier. What's ironic is that a person who made that point very eloquently back, I think it was in the late 1990s, in reference to the so-called living wage movement, was Paul Krugman. That was back when he was actually a pretty decent economist and was a numbers guy and was actually pretty straightforward. And he said, regarding these studies showing that individual companies benefit from reduced turnover by paying slightly above industry standard wages: obviously you can't extrapolate from that to all companies; it's not like every company can get the cream of the crop. That's impossible.

WOODS: It's interesting, by the way, that Reich makes much of the composition of people who earn minimum wage. But he says nothing about the percentage of Americans, the percentage of wage earners, who earn minimum wage, because it's just a few percent. And then you would see, well, maybe this is not quite the issue that he's making out of it.

Let's talk about the studies that are supposed to show that you can raise the minimum wage and the number of people hired is unaffected.

MURPHY: I have an Econlib article going through these studies. There are some empirical studies that run econometric regression analysis and say: there are certain ways you can parse the data, and it seems as if *modest* increases in the minimum wage in certain states did not significantly reduce the employment growth, like in the fast food industry and so on.

I think there are problems with those analyses, but even if they were all gospel truth, it doesn't follow that jacking up the minimum wage from $7.25 to $15 per hour won't have a huge impact.... To my knowledge, not a single peer-reviewed study gives us any knowledge of what would happen with such a huge increase in the minimum wage.

WOODS: I must have an episode somewhere in which I talk about how wage rates rise on a free market. I'll put that on today's show notes page, **TomWoods.com/430**, as well. [It turns out I couldn't find such an episode, but I do explain it in **this video**, as well as in one or two of **my books**.]

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PART IV
Would More Government Intervention Improve the Economy?

Chapter 7
Is "Capitalism" the Problem with American Health Care? (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.

WOODS: I'd like to talk about your practice first of all, because although it's not completely unique, it's highly unusual from the point of view of the average consumer of health care, the average deliverer 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 of having 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. 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 like 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.

Then 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 out-compete 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, and so 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 out-compete 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 be 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. My 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 possibly 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 basically 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 pathologic 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 or 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, and 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 only works well 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 by now four large companies. But it only takes one spot of innovation, one doctor like us to say: I'll do it different; 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: If I listen to somebody like Bernie Sanders – I don't even have to bring up Bernie Sanders: just a typical politician, that person will say that what we have in health-care now is capitalism, and that's why we need less of it, because it's obviously given us all these problems. What would you say if somebody says the system that we have right now is capitalism? 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 I believe the stat's 52 or 53 percent of all health-care dollars are paid for by the government, between Medicare, 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 Medicaid patients, 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, and I can only lose so much money and keep my doors open. So they end up getting worse health outcomes. That is a badge of recognition that does not serve them well, which is to say I have a Medicaid card. Now, it covers some things, great, but it still doesn't result in great outcomes.

Compared 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're at 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 made. Okay, fantastic. 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. And there's plenty of data to show – and of course people will disagree on this – but if you actually look at the data, a great example, the World Health Organization 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 repeat 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. So part of that is 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 stillborn. So we're not comparing fair data to fair data. But I think you can say, well yes, us 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, but 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 they 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 recently when he was interviewed 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 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 checkup, but you don't have insurance for all the other things you *know* you're going to do.

UMBEHR: Right.

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

I do want to ask you before we wrap up: 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, so 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 based 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 a 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. And 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 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.

Chapter 8
Should Employers Be Required to Offer More Fringe Benefits? (with Thomas J. DiLorenzo)

Thomas J. DiLorenzo is a professor of economics at Loyola University in Maryland.

WOODS: Bernie Sanders is proposing to mandate that employers grant people 10 paid vacation days, seven sick days and 12 weeks of family leave. That's the sort of proposal that strikes people as benign and very much welcome and could only be for the good, and that the only people that would oppose something like that would be fat cats who are in bed with industrialists who just want to grind workers' faces into the ground. What is the libertarian way of understanding a proposal like this, on the other hand?

DILORENZO: Well, another group of people who would object to this is anyone who has studied economics for five or ten minutes. This is basically the European model; it's basically the reason why for many decades, during the '70s, '80s, and '90s, there was zero job growth in so many of the western European democracies. All of this priced people out of a job. You can't give people something for nothing. It would be nice if we could all have three months of paid vacation or family leave or whatever you want to call it, but of course that costs a lot of money.

So somebody who makes, say, $500 a week, and he produces for his employer $600 a week by being there – it's worthwhile to employ that person. But if the government comes in and says, well, in addition to paying this person $500 a week, you have to pay him another $1,000 a week in fringe benefits, that person is no longer going to have a job.

And that's exactly what the European socialist parties advocated for many decades in the post-World War II era. And of course they came right out and called themselves the French Socialist Party, the Belgian Socialist Party – they didn't call themselves Democrats or independents or whatever. They came right out and said we're socialists, and this is what we stand for. And of course Bernie calls himself a socialist, and this is his program. It is a sure-fire recipe for a huge spike in unemployment and poverty in America.

WOODS: What I find to be a complete home run argument against this kind of proposal involves comparing it to what he says about carbon emissions. On carbon emissions, he realizes that if you make something more expensive, people will do less of it. That's his whole plan against carbon emissions. Well, likewise, if you make employing people more expensive, why wouldn't they do less of *that*?

DILORENZO: Yeah, sure. Either he's confused or he's sly as a fox. It reminds me of a story my old friend, the late Murray Weidenbaum, once told me when he had a conversation with Barry Commoner, who was an old socialist environmentalist. And old Professor Weidenbaum told me he asked Barry Commoner at lunch one day – they both taught at Washington University in St. Louis – well, you're against coal-fired plants, you're against hydroelectric power plants, you're against nuclear power, you're against all these kinds of power, and that would destroy capitalism, wouldn't it, if you didn't have any of this. And he said Barry Commoner just smiled. That's the idea, of course: to destroy capitalism.

And so maybe that's what Sanders is up to. He understands that this will create massive unemployment and massive poverty. That's the Frances Fox Piven strategy, isn't it, if you've ever read about it: to overwhelm the welfare state so much that the government will have to come in and adopt full-blown socialism eventually. That's been the strategy of the hardcore socialist left for many decades now, and Bernie Sanders is their man.

WOODS: I remember giving a talk at the Mises Institute years ago, and Morgan Reynolds was there, and of course he was a professor – was he at Texas A&M?

DILORENZO: Yes, he was a professor at Texas A&M for many years. He was also the chief economist at the U.S. Department of Labor in the first Bush administration.

WOODS: That's right; I was going to mention that. So he knows a little something about labor economics. And I was giving a talk related to my work on Catholic social teaching and talking about all the myths that need to be overturned there, and he got up and objected at the end and said: I'm sorry; I don't accept the idea that this is just a question of people of good will who just have some mistaken pronouncements. He said there's been too much progress in economic science for anyone still to believe this stuff, that the way you help people is by making it more difficult to employ them. I don't believe that. So I believe, until proven otherwise, that anybody advocating a policy like this is a sinister person, who wants to keep people in poverty, because I can't believe anybody could be that ignorant. Now that really was a stunning thing to say.

I personally think people *can* be that ignorant. I think there are some malicious people, sure, but there are some ignorant people. But that, I took as a really stunning kind of rebuke. He added that Ted Kennedy had to know that he was not improving the situation of poor people, but what he was doing was making sure they would always stay down and poor and dejected, and they would always stay Ted Kennedy voters. That's what he was accomplishing.

I remember an article you wrote about the bumper sticker that claims labor unions brought us the weekend, and I loved your analysis, because it's just like a laser beam. Why do they say that labor unions brought us the weekend, and what in fact did bring us the weekend?

DILORENZO: Over the past century and a half or so, we've seen people working fewer hours but making more money. How could that be? How could you work less and make more money? Well the answer is increased productivity. People produce more per hour. And the main ingredient in that is capital investment by entrepreneurs. When the employer buys a new software system, a new computer system, or, in agriculture, the latest agricultural technology or something like that, then the people who work with that technology become more productive. They can produce more output per hour.

And employers have to compete for these people to run their machines, to operate their computers, and so forth. And how do you compete for good employees? You have to offer them a little more money. So when productivity goes up, wages go up. We've been observing that for centuries. Now, it's not an exact one-on-one relationship, but the correlation has always been there.

And so productivity improvement is a key to that. That's how we have done what we have done. And the number of labor hours going down, the production itself, labor, and things like that, that all happened before labor unions did anything, before there were laws passed limiting hours or forcing employers to pay time and a half for overtime, as occurs in some states, and things like that. So it was capitalism and technological developments and capital investment under capitalism that is responsible for weekends and more leisure time.

WOODS: I always give this example, because it's from my immediate family: my father was a member of the Teamsters. He was a forklift operator in a food warehouse for about 15 years. And I sometimes think about the wages he was able to earn. The Teamsters could have protested all they wanted about wages before the invention of the forklift, and it wouldn't have done any good. There's no way they could have remotely dreamed of getting the type of wage they would later demand, unless the forklift existed and had been invested in by the food company's decision to save and reinvest its profits. Could you imagine the difference in productivity, trying to move pallets of food with your bare hands, as opposed to with a forklift? It's not even worth thinking about. So there's no way he could have earned that wage otherwise.

DILORENZO: That's exactly right. Or look at farm labor. Some guy walking behind a horse plowing a field. And then the tractor is invented, and you can plow 100 times more per week with a tractor compared to walking behind a horse. That had nothing to do with the improved skill of the worker. But all of a sudden that farm worker becomes much more valuable to the owner of the farm, because he can produce so much more. And if he's not there, the farmer loses a lot more, because he can make a lot more, because of the increased productivity.

And my father was a unionized ag worker, which is sort of the same thing, where he's basically the conveyance of the skill and technology of heavy construction. And not everyone can do that or is willing to do that, either. And that's another thing about capitalism, by the way: these jobs that are very strenuous or dangerous, you have to pay what's called a compensating difference. You have to pay people more for these kinds of jobs, and so they do. And so that's how people like my father were able to make a good wage, is they were willing to take on these strenuous and sometimes dangerous jobs, because they got paid more than other jobs for doing that. That's how the market works.

WOODS: Somebody might well say, though, that a labor union clearly benefits its members. Those members earn more than they would have without the union, so this is a good thing.

And it would be an even better thing if we could spread labor unionism more and more throughout the economy to cover more and more workers, so everybody could enjoy the benefits of labor unionism. Is there a fallacy in there?

DILORENZO: Yeah, the fallacy is that the competition for labor unions is always non-union labor. The only way a union can get wages above the free-market level is to use some sort of force or coercion or intimidation to keep competition out. For example, the strike has historically been the tool that labor unions use. But if you go on strike nowadays, you risk losing the job, because it's not illegal to hire replacement workers. So that's a very risky thing.

Another thing, you mentioned Morgan Reynolds, the labor economist. One of his articles that he wrote, memorable to me, when he was the chief economist at the Department of Labor, was on union violence. And there's been a lot of research on this, and that historically in America unions have used a lot of violence – clubbing, stoning, dynamiting, slashing tires, vandalism – to intimidate. It's all directed at non-union employees, whom they call rats and scabs and much worse than that. It's not really directed so much at the employer; the competition is always going to be employees. And so any gains that unions make are usually at the expense of the non-union employee. That's why they lobby for such things as the minimum wage law, because it helps price low-skilled labor out of the market.

And the way I teach it is, I tell students: if I hire two college students to paint my house and pay them $10 an hour each, that's $20 an hour, and I can pay a union guy, who's a skilled, older, experienced painter $25 an hour, well, I can pay the two college guys less and get the paint job done. But if they have a law passed saying I have to pay them $15 each per hour, then it's no longer economical for me to hire them, and it now costs me $30 an hour for them and $25 an hour for the union guy.

So I'm going to hire the union guy. And the unions understand that. This is not rocket science.

And so a lot of what they do politically also is aimed at getting non-union labor out of there. Child labor laws, when the unions got behind that, it was because young people were competing with unionized labor. And when you see them protesting child labor in Indonesia and places like that, it's not because they love children in Indonesia; it's because they want to throw them out of work. And in parts of the Third World, where children are thrown out of work because of boycotts instigated by unions, the alternative is not enrolling in a nice, expensive private school. The alternative is begging on the streets, child prostitution, and crime, and things like that. And so a lot of American unions are perfectly willing to destroy the lives of thousands of Third World children who might be working in a textile factory to make a little bit better lives for their families.

WOODS: It's interesting that so many people who would describe themselves as having progressive views on race are also very much pro-labor union, when the labor unions very obviously were making life very difficult, especially for American blacks, really throughout their heyday. Of course we can see that in South Africa, all over the place, what the unions were up to.

DILORENZO: Our friend Walter Williams wrote a book called *South Africa's War against Capitalism* about 30 years ago or so, and he points out there that the apartheid system was partly enforced by South African labor unions who instigated that system in the first place. And they were very Marxist-oriented. Their slogan was a variation of the old Marxist slogan, "Workers of the world unite." The slogan of the white, racist labor unions of South Africa was, "Workers of the world unite; keep South Africa white." And by that, they meant don't provide employment opportunities for black people in Africa.

And in the United States, in my personal experience, I said my father was a unionized ag worker. Growing up in Pennsylvania, it was unheard of for a black man to have one of these higher-paid, skilled jobs back in those days, and it was solely because labor unions did that. And in fact, an old student of mine a long time ago, Tom Rustici, who I think still teaches at George Mason University – when he was an undergraduate I got him to write an article for my class that I had published in the *Cato Journal*, where he looked up the congressional record at the time of when they were debating the original minimum wage law in the United States. And he found that some politicians, members of Congress, came right out and said: we've got all these black workers from Alabama who are willing to work less than the white workers we have here, and we can't allow that to happen, so therefore we want this minimum wage. They came right out and said that the minimum wage law would be a tool to discriminate against lower-skilled black workers in the United States. And that has always been the effect of laws like the minimum wage, if not the intent.

WOODS: So when the average student is sitting in a classroom and believes that the reason that wage rates have risen over the course of American history has something to do with labor unions, and you've got 30 seconds to explain to him why this idea he's taken for granted his whole life is incorrect, how do you sum it up?

DILORENZO: Well, labor unions have never been more than about 30 percent of the United States labor force, so just that fact alone means that they cannot possibly explain all the increase in wages. And also, if you understand the simple economics of it, you understand that when unions do succeed in pushing wages up, there's still a downward-sloping demand curve for labor. That means that employers can no longer afford to hire as many people, and it's usually the people with the least seniority, the least skilled who are labor union members who lose their jobs. And so some labor union members actually get priced out of a job whenever the wage goes up as a result of the efforts of unions. And then also, the union has to keep out of employment competing non-union workers. And so whenever unions benefit, it's for the benefit of some of their members, but it's at the expense of some of their other own members and also of non-union labor.

And that whole idea also ignores the fact that it's really capital investment that drives productivity, and labor unions have been a drain on productivity. Just look at the American automobile industry and the textile industry and the steel industry in the 1970s. Labor unions were mostly responsible for their destruction.

WOODS: Our friend George Reisman thinks of it this way: he says when a labor union gets involved in an industry, the whole point is to raise wages, which means that there'll be fewer people who can be employed at that higher rate, so some people have to drop out and go into some other line of work. But that some other line of work is obviously, from their point of view, inferior to the first line of work they were in, or they would have chosen it in the first place. So now you get a whole bunch of people who have to go down a level, in terms of their ambitions for employment, and at that level there's now an artificially increased number of people competing for those jobs, so wage rates are depressed in that area.

And if you unionize there, you drive some people out of that, and they have to go down another level, and so those people lose, but also all of society loses, because all those people who are being pushed out are people who acquired skills, and spent some time and resources acquiring those skills. They can't use those skills, because the union drives them out of the industry they were trained for. So society loses as a whole, because all the resources that went into providing those skills to those people are a complete waste. These are all things that are totally missed when all you can see is, here's a labor union, and some guy now has a higher wage than before. You have to be able to think beyond this surface level. It's what is seen and what is not seen. You have to look for what is not seen when it comes to labor unions.

DILORENZO: Yeah, that's exactly right. And it's not that complicated. If you understand basic supply and demand and apply it to labor markets, I think most students that I talk to catch on very quickly. It's very straightforward, very logical thinking. But if you only listen to the emotional rhetoric, as your typical voter does, you're easily duped by all of this. But that's exactly what happens. Wages in the non-union sector are depressed. If you create hundreds of thousands of unemployed people, a lot of them are going to find jobs in the non-union sector, and that'll drive wages down there also. So people who already have jobs there will find that either their wages will fall, or at the very least, they won't rise anymore, they won't rise as fast as they otherwise would have in the future.

Chapter 9
Is There a Gender Pay Gap We Need to Close? (with Mark Perry)

Mark Perry is a professor of economics at the University of Michigan, and holds a joint appointment at the American Enterprise Institute. He is the creator and editor of one of America's most popular economics blogs, Carpe Diem.

WOODS: Tell us a little bit about what's going on today with regard to the president's executive orders related to equal pay. After all, this is Equal Pay Day, which is why we're doing this program today, of course, and it's why he chose today to launch a couple of initiatives on his own accord.

PERRY: That's right, Tom. Every year this organization called the National Committee on Pay Equity promotes what they call "Equal Pay Day," that generally falls sometime in April, and it's based on this myth that women earn 23 percent less than men. So Equal Pay Day today, on April 8, would represent the day into 2014 that the average woman would have to continue working to make the same average salary as what a man made back in 2013. They do this every year to promote awareness of this gender pay gap.

Obama is using today, Equal Pay Day, to announce two executive orders. One, I understand, will be requiring all federal contractors doing business with the federal government to report to the Department of Labor to provide detailed compensation, salary, and wage data for all of their employees of the contractors based on race and sex. I guess that could be used then to determine whether or not there's any gender pay gap within the organizations who are doing contracts for the federal government. Then there's another executive order that has something to do with no retaliation against employees that are either reporting their salary or trying to find out the salaries of other workers. So the president is issuing two executive orders today, I guess in his attempt to try to address or close what he perceives as a pay gap.

WOODS: Well, here's an interesting item that you've been reporting on: it turns out that the president himself, in his own White House, has a pay gap, if we interpret that term the way he wants it to be interpreted for all private employers. There is a pay gap between men and women at the White House. Apparently this was brought up the other day with Jay Carney, if I'm not mistaken. How did he handle this claim?

PERRY: I haven't seen the full transcript because I got calls from two reporters right away. But yesterday at a press briefing, Jay Carney I guess was reporting that Obama would use today, Equal Pay Day, to issue these executive orders, and then three different reporters, including one from the *Wall Street Journal*, one from FOX News, and one from another organization, were asking him to explain why the White House itself has this 12 percent pay gap. That was based on a report that I have done based on information that they release every year on White House staffers. I was able to do a detailed analysis by gender, and for 2013, I reported on the American Enterprise Institute blog on several occasions over the last four or five months that the White House pays women on average $0.88 for every dollar that they pay men. I haven't seen the full transcript, but I guess what Jay Carney said was that for the same position they pay men and women the same. But again, that has always been my point: that within any organization you're going to find wage differentials based on gender that probably have nothing to do with discrimination.

So I don't think the White House is discriminating against women. It's just that there might naturally be more entry-level women working in lower-paid positions and more men with more experience working in higher-paid, higher-level positions. So I am not convinced that there's any discrimination at the White House, but if they are finding a 12 percent pay gap, lots of other organizations, including federal contractors, might likewise find 12 percent pay gaps that have nothing to do with discrimination. So it does seem at least disingenuous that the White House is requiring federal contractors to report wage information by gender when they themselves don't really report it. I had to dig into the data to find the 12 percent pay gap, and so they've got their own pay gap, but then they're going to be criticizing other organizations for having some pay gap.

WOODS: Well, you're right that of course the point here is not to claim that Obama hates women and that that's why he's not paying them as much. It's to show that this kind of disparity seems to occur all over the place, regardless of your good intentions or bad intentions or whether people like women or don't like women.

Now, we'll get into in a moment what may actually be the cause of this. But right away, especially in an economy like this, with razor-thin profit margins, to claim that women are earning only 77 percent of what men are earning is wildly implausible on the face of it. As soon as you hear that sort of claim, why do you instinctively say, "That's got to be wrong"?

PERRY: Well, sure, because then any profit-seeking employer – on one hand we accuse companies of being worried only about the bottom line and being worried only about profits, but then on the other hand we're accusing at least some of them of overlooking an instant opportunity to be able to save 23 percent on their labor costs by hiring lower-paid women or firing all the men. So if companies could save 23 percent on their labor costs, which is most companies' main cost, then they would just automatically hire only women and hire no men and save 23 percent. But then that of course would bid up the wages of women. So yeah, to suggest a 23 percent pay gap, and that it's all based on discrimination, would be inconsistent with reality in the fact that companies are always looking for ways to save money and would do that naturally if they really could hire a female engineer for $77,000 instead of a male engineer at $100,000.

WOODS: Mark, I think there's a fundamental equivocation at work when people talk about this pay gap. "Women are earning 77 percent of what men are earning" – and it's just left hanging there. Everyone just assumes they mean to add "for doing the same work." Do people who believe in a pay gap actually mean that a woman with comparable experience doing job X is getting paid 77 percent of what a man gets paid for doing job X, or are they saying that if we look at all the aggregate earnings of women *across occupations*, and we compare them to the aggregate earnings of men, and then we do a per-capita division, we find that one is 77 percent of the other?

PERRY: Well, yeah, that's right. It's just average wages, usually for full time. Although even full time, as we can talk about, doesn't necessarily always mean the same thing for men and women. Full time means anything over 35 hours a week. But yeah, all they are doing when they report this $0.77 on the dollar or 23 percent wage gap is comparing averages for all full-time workers. Again, if we look at the White House and just compare averages for full-time men and full-time women, we naturally find pay gaps that have nothing to do with discrimination but could be explained by dozens of other important factors and variables that explain earning differentials by gender.

WOODS: I think, though, that the average person who doesn't follow this as closely as a policy analyst does thinks that the debate is about women not earning as much as men *for doing the same work*. Yet 50 years ago we had the Equal Pay Act of 1963, which I'm pretty sure made it illegal to have differential pay for the same work for men and women. So that issue has been resolved.

But that does leave the question of where this 23 percent gap is coming from, after all. And it is worth digging into and disaggregating the numbers a bit to try to come up with a good answer. You've come up with a variety of answers. There's one big answer, but let's look at some of maybe the less obvious answers. Let's look, first of all, at the question, as you mentioned a moment ago, of hours worked. Are we in fact comparing apples with apples when we talk about men who work full time and women who work full time?

PERRY: According to the Bureau of Labor Statistics, which reports wage and salary data every year or on a very regular basis, they consider full time to be 35 hours or more per week. But once we look into that and dig in, they even say on their website that men on average have a longer work week. So for example, 26 percent of full-time men worked 41 or more hours per week in 2012, the most recent year that we have data for. And that compares to only 14 percent of women who worked 41 or more hours per week. So men were almost twice as likely as women to work 41 hours or more per week. And then if we look at the full-time workers who work only 35 to 39 hours per week, well then women are more than twice as likely than men to work a shorter work week. So 12 percent of women worked 35 to 39 hours per week in 2012, while only five percent of full-time men were working 35 to 39 hours per week. So once we just control for and look at full-time workers that are working 40 hours a week, then at least according to BLS data, women earn only 12 percent less than men. So just controlling for hours worked will often explain some of the raw or unadjusted wage gap.

WOODS: You have an item in your piece that surprised me. I had not realized this was one of the variables at work. When you look at the question of age, this helps us to understand some portion of the gap. Can you explain that, or what might be causing that?

PERRY: Yeah, and in fact the BLS didn't report this, but another wage study a couple of years ago reported that if you look at single men and single women who are young, in their 20s, never married, no children – so you control for variables like marriage and motherhood and fatherhood that could have an effect on earnings – women in many studies make more than what men make. The Bureau of Labor Statistics shows that young workers 20 to 24 or the group 25 to 34, that among those workers that generally women make about only 10 percent less than men. Then again, if you control for other things like college education and so on, it could be the case that women make more than men. So I think once we combine all age groups together, that's where you're going to find some wage differentials, but if you look at younger men and younger women and especially before they're married and have kids, then often the wage differential is almost zero for that group.

WOODS: And that really gets to the key difference between men and women that is relevant to understanding this alleged wage gap, and that is the question of the differential effects of marriage upon women as compared to men. What kinds of differences are there? They should be obvious, but the fact that we even have to have this conversation means they must not be obvious.

PERRY: (laughs) I think one way to think about it is that the wage gap, to the extent that there is one, is usually between married men with children working full-time and married women working full-time with children. That's where you do find wage differentials because of the different family roles that men and women play. For example, in the Bureau of Labor Statistics data, if you look at married men and married women and look at couples that have one or more children under six years old, for that group women make 82 percent of what men make or make 18 percent less. That shouldn't be so surprising, either; that just would be explained by the differences in family roles. Women are more nurturing, they can breastfeed and men can't. They spend more time looking after the children. So we wouldn't expect the same wages to exist when we look at married men and married women, especially once we introduce marriage and children into the equation. That's when we could find some natural differences in pay that would be explained by voluntary choices that men and women make.

WOODS: And of course, the very fact that biologically women are the people who have the babies and they know if they want to bear children that their careers, if they have any, will be interrupted for a period of years or perhaps interrupted repeatedly, this knowledge is going to influence the types of fields they enter in the first place. There will be some fields that you simply can't afford to leave for years at a time, because your knowledge will be out of date by the time you try to jump back in again. So there are some professional fields that are high paying that would be ruled out immediately, whereas to the contrary there are a lot of low-paying jobs that happen to be very flexible in this regard and also happen to be very flexible in terms of hours worked: for example, being a schoolteacher means you can be home roughly when your kids get home, so you're going to see a lot of women in that field. You're going to see a lot of women in secretarial jobs, not because stereotypes brainwash them into becoming secretaries or schoolteachers but because this works with the way their lives unfold.

PERRY: That's exactly right. Often it's the number of years of continuous experience that are important for career advancement, and if you have a five- or ten- or fifteen-year gap in your work experience and, like you say, in certain fields like, I don't know, tax accounting or computer programming, the 15-year gap out of the workforce completely would put you at a significant disadvantage once you decide to reenter the workforce after having children. So women, often knowing that they might have children or maybe even more than one child, would be looking at careers that give them flexibility and opportunities to work flexible hours.

This might be a strange thought experiment, but one way to think of it is to think that if men could biologically get pregnant and if men could biologically breastfeed, then the careers and jobs and training that they would look for would be much different than the way it is now than when they don't get pregnant. Like you're saying, women often will value flexibility in careers more than men, and so that's why they could be drawn to, let's say, nursing instead of being a physician, or a schoolteacher and things like that. So that would be another way to explain the gender pay gap, based on career choices and the difference in family roles between men and women.

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Chapter 10
Is "Inequality" an Important Problem? (with Scott Winship)

Scott Winship is the Walter B. Wriston Fellow at the Manhattan Institute, and holds a Ph.D. in social policy from Harvard University. He blogs at economics21.org.

Before turning to my discussion with Scott, let me share an excerpt of my episode with Deirdre McCloskey, whose points make the obsession with "income inequality" seem, well, misplaced.

> *In Burgundy, as recently as the 1840s, the men who worked the vineyards, after the crop was in in the fall, would go to bed, and they would sleep huddled together – I'm not making this up – in order to preserve their warmth, and they would actually hibernate for months in that state. That's how poor they were. They couldn't afford the heat; they couldn't afford the food they would have to consume if they got up. So even in a country as rich as France in the middle of the nineteenth century, people were very poor.*
>
> *I estimate that world income around 1800 was, in modern terms, three dollars a day. Imagine trying to live on the cost of a quart or two of milk, spread over all your consumption – all your housing, your clothing, your education, everything. Three dollars a day is a terrible, terrible life.*
>
> *Now, the world average – adjusting for inflation – is $33 a day. It's about what Brazil is now. Three dollars a day to $30 a day, even if you include very poor countries like Chad and Bangladesh, is an enormous increase. It's a factor of ten. And in countries like Sweden, the United States, Australia, Hong Kong, the average is over $100 a day. So it's either a factor of ten for the world per capita, or it's a factor of over 30 for the countries that have fully absorbed*

> *the message of bourgeois equality [in other words, a recognition of the value of commercial activity].*
>
> *Here's the most important point: the average poor person in the world is better off by a factor of ten than she was in 1800. And in the countries that have allowed the ill-named capitalism to flourish, like Sweden – which is a highly capitalist country, for all we've heard of its socialism – it's a factor of 30. The equality of real comfort – having a roof over your head, having a serious education, having smallpox vaccination or the elimination of smallpox, having enough food to eat – those comforts, which were denied 90 percent of the people in 1800, are now enjoyed by ordinary folk. Even the poorest in a rich society are vastly better off in material terms than they once were. So this engine has been so much more productive in improving the condition of the poor than any of the schemes of equalization of incomes.*

And now, to my conversation with Scott Winship.

WOODS: What is the actual trend in income inequality, and is it as extreme as people let on?

WINSHIP: The problem with inequality is it's such a multifaceted topic, that there all sorts of different little avenues to explore. If we start with income inequality, I think it makes sense to look at trends in two different ways: to first look at income concentration, which is the extent to which incomes at the top have been getting bigger and bigger – and that's what's getting all the attention here in the last decade or so – but then secondarily you can think about income inequality within the 99 percent, if you want to use the Occupy Wall Street terms.

And just very quickly, I think what's interesting that a lot of people don't realize is that income inequality below the top hasn't really grown all that much since the 1980s. So if you look at, for instance, the income of the typical middle-class household versus a typical poor household, that gap hasn't really risen since the late '80s. What has changed a lot is the extent of income concentration at the top. I think the best numbers here come from the Congressional Budget Office, which show that in 1979 the top one percent of households earned something like 10 percent of all the income that was earned in that year. Fast forward to 2007, on the cusp of the Great Recession, and that number was more like 20 percent. That's a real increase. In 1979, the top one percent's average income was something like nine times the average income for a middle-class household. In 2007 it was more like 22. So certainly a big increase over time. We can quibble about whether that's overstated a little bit, but I think very few people would argue that income concentration has not risen quite a bit over time.

WOODS: All right, I guess what we have to get to now is, what effects does this phenomenon have on the average person? Because the strong implication is if some people are getting wealthier, this must be at the expense of everybody else.

WINSHIP: That's certainly what you hear when you read about the topic in the news. I spent several months a couple years ago doing a pass through all the literature on this, because I got tired of having arguments with people where no one was actually citing any literature, which typically is how these arguments go. So I essentially looked at whether rising income inequality hurts the living standards of the poor and of the middle class, whether it affects financial stability – a lot of people think the financial crisis was caused by inequality – and whether it affects democracy and political inequality.

And one by one, I showed in this piece that I wrote for National Affairs, that either the evidence is really mixed or it's just not that great, not good enough to really give us an answer one way or the other. The case that inequality has hurt any of these things is remarkably thin. If you actually confront anybody with studies on this stuff or challenge them to back up their assertions, there's just not a lot behind them.

WOODS: What about instead of just inequality, if we look at the issue of the actual well-being on an absolute level, not relative to anyone else, but the well-being of people, let's say, in the bottom three of the five quintiles of the income distribution. What can we say about where they've gone from, let's say, the 1970s or so to today?

WINSHIP: Great, so we're not 10 minutes in and we've gotten to quintiles, which I'm always glad to –

WOODS: (laughing)

WINSHIP: For people who don't know, if you think of the income distribution, lining everybody up from poorest to richest, quintiles divide that up into fifths. So the middle quintile is kind of the middle class; the bottom quintile you can think of as the poor. And so if we look at the Congressional Budget Office data, which again, I think is the best source out there, it has some figures that surprise a number of people.

So for both the poor and the middle class the Congressional Budget Office says that the average incomes for those groups have risen by something like 35 possibly all the way up to 50 percent between 1975 and 2007. I compare those two years, because they were both peaks in the business cycle. Incomes took a hit certainly in the Great Recession, but they're recovering, so eventually we'll have another business cycle peak to compare 1979 to. But the 35 to 50 percent translates into roughly 10 grand. That's not an amount that any of us would be indifferent between having or not having today.

Now, critics will say well that's terribly slow growth on an annual basis, for instance. And well, it's hard to say without having some basis for comparison, so it is slower growth versus the 1950s and the 1960s, which were just this incredible period of income growth for everybody, and there are a lot of reasons for that and reasons why we're never going to go back to that. It's also less than certainly what the income growth at the top was. But again, $10,000 is a pretty substantial amount of money.

I think another important thing to remember is that the conventional, most-used numbers that get cited on this question, which just come from sort of the Census Bureau dumps that they do in September every year, are not the best numbers for tracking living standards over time. There are a number of problems with how they adjust for the rise in the cost of living. They don't include certain sources of income. The Congressional Budget Office, I think, has done the most careful job and it does show a surprising amount of growth for everyone, despite income inequality increasing.

WOODS: Before I forget, there's a point I want to get to in one of your articles that takes on this claim that there's some kind of connection between the enrichment of the one percent and the alleged impoverishment of everybody else. (Again, we have to realize that correlation is not causation, but if I see a correlation that basically can't exist according to what my opponent claims, it does tend to undermine his argument.) What is the correlation we see between the rising fortunes of the one percent and the fortunes of everybody else, and the declining fortunes of the one percent and fortunes of everybody else?

WINSHIP: I think what's interesting is that over time, the periods that are good for the top are also the periods that are best for the middle class and for the bottom. So what's interesting about the slowdown in the growth in income for the middle class and for the poor is that it started in the 1970s, and that's important because income concentration didn't really start until the early to mid-1980s. So the slowdown in income growth really precedes the rise in income concentration by a decade, and the primary reason for that isn't a mystery. This happened in developed countries around the world, where productivity slowed down, and it's remained below for the most part what it was in the '50s and '60s. So over time, the fortunes of the top one percent and the fortunes of the middle class and poor tend to move together.

Now, what I think the Left focuses on is that around 1980, a lot of different things do change in ways that do correlate with rising inequality. But what I tried to show in my article is that, exactly as you say, correlation certainly is not causation. For the most part, you could – and to be clear, I am a supporter of immigration, particularly high-skilled immigration – but any argument that's made that correlates rising income concentration to problems that the middle class or poor are having, you can swap in the percentage of people in the United States who are immigrants and make the exact same argument. I would support neither of those arguments, but it just goes to show, you can't simply say, well, inequality got worse over time and these other things got worse over time, and so it must be the case that inequality caused these other things to get worse over time.

WOODS: One of the claims is that greater inequality seems to correlate with financial crises and economic instability of various kinds. What does the evidence seem to show about that? [N.b.: my 2009 *New York Times* bestseller *Meltdown* explained the actual cause of financial crises, which have zero to do with "inequality"; otherwise, we'd be in a constant financial crisis, since income inequality can be found at all times and in every society in the world.]

WINSHIP: Well, this is a great case where there were kind of some claims by pretty prominent folks, and then everyone just cited them without really stopping to think about whether there was anything there. So Robert Reich, I think, made the argument that the financial crisis was caused by rising inequality. One of the books on the financial crisis by Raghuram Rajan made the same claim; he's now the head of India's central bank, I think. And there were a couple of academic papers that made this claim as well.

What I cite in my article is a paper that came out after all of these claims, which directly took them on and essentially said: I'm able to replicate their findings, but when I do this in a more sophisticated way, what I find is that financial crises are caused by credit bubbles, which is not anything shocking. It's true that inequality or income concentration also tends to rise during those same periods, but it's really a consequence of the credit bubble. And so he's able to disentangle those in a way those no one else tried to do before using data on crises going back to the nineteenth century. So that really deflates the claims that these previous folks have made.

The other thing that we haven't touched on that I've done a fair amount of work on is whether inequality hurts economic mobility, and this is another great area where, as you say, the correlations really make things kind of complicated. In the United States, it turns out that economic mobility hasn't changed that much over the last, say, 50 years or so. Now that's a problem if you think that inequality has hurt mobility, because mobility is no worse now when inequality is high than it was several decades ago when inequality was much lower.

Similarly, if you look across countries, there were pretty strong correlations between how much inequality a country had and how little mobility it had. That's a correlation to start with, as we talked about. But also, I think even the correlation is falling apart with new research essentially showing that the measure of mobility that was used in these analyses was not really a pure measure of mobility. It was kind of a measure of mobility; it was kind of a measure of inequality. And so unsurprisingly, a measure that looks worse the more inequality increases tends also to correlate with measures of income inequality. The latest research shows that, actually measured in a pure way, mobility in the United States isn't any worse than in Canada, than in Sweden – which is pretty remarkable – and in Germany. And all those countries have more inequality than the United States, so again, the correlation there isn't even obvious.

WOODS: I want to read just a little passage from an article by Daniel Fernández Méndez over at Mises.org on the subject of inequality around the world. He's looking at the Gini coefficient, which is a metric that's used by some economists to track inequality. He writes:

During the early nineteenth century, 35 percent of the global inequality found by the Gini index was due to differences across national borders. At the same time, 65 percent of the inequality was generated by differences in incomes within each country. But by the early twenty-first century, 85 to 90 percent of the inequality was due to differences across national borders, while only 10 to 15 percent of inequality was due to income differences within each country.

In other words, the main source of inequality in the world has changed from the within-border inequality to cross-border inequality.

This is clearly an indicator that inequality does not come from capitalism, but comes from the spread of industrialism and market institutions to different places at a different pace. If half of the world embraces markets and the other half doesn't, it is clear that the development of the first group makes the world more unequal, but this fact doesn't tell us anything about the inequality in the areas adopting market institutions. Indeed, the available data supports precisely this hypothesis: inequality across countries has risen from 15 Gini points to 60-63 Gini points, while within-border inequality has fallen from 28 points to 7-11 points.

That's a very interesting point: that at the very time that people are very concerned about inequality within countries, particularly the U.S., that has actually fallen dramatically in terms of the overall story of global inequality.

WINSHIP: Yeah, I think that's exactly right. I did a study once – the only time I've actually looked at countries outside the United States – where I tried to take on this claim that, well, the United States, it turns out, has the same Gini as places like Nigeria, and so we ought to be essentially indifferent between living in these two countries because they have the same inequality levels. And I took on the argument that countries with more inequality, that it hurt their economic growth. And it turns out that also does not look like it's true. There's no relationship between the two. In fact, in a lot of countries, particularly in the English-speaking world, countries that have more inequality actually have higher economic growth.

So I think the political context is incredibly important in thinking about inequality. You can have inequality levels that are high, like in the United States, but where we have a democracy, where we have to some extent a meritocracy, or you can have high inequalities in the developing world, where you really do have autocrats at the top who are stealing from their people. Obviously those are two very different situations. It amazes me sometimes that there are these papers that just look across countries and do correlations and don't make any attempt to distinguish between whether different types of high inequality might be better or worse for people.

WOODS: Scott, one of the things I appreciate about your work is that you insert the appropriate level of nuance. You don't say everybody who disagrees with me is an idiot, or the evidence in every single case clearly falls in one direction, so everybody else must be a blockhead. Your work has the tone of a scholar who is genuinely looking through the data, wanting to see what kinds of conclusions it's point to, and I do appreciate that, and I'm going to link to a couple of your pieces at TomWoods.com/483.

But having said that you appreciate nuance and you want to get everything just so, suppose you're in something like a presidential debate where you have 30 seconds to a minute, and somebody confronts you and says inequality is a major issue in the United States today, and it's doing us tremendous harm. How would you try to summarize it in just that span of time?

WINSHIP: Well, I think I would say that, even as inequality has risen, the middle class and the poor have also increased their living standards, and ultimately that's what really matters. If people are seeing gains themselves, they're not all that concerned with what's going on at the top. And that's why inequality consistently ranks pretty low when people talk about their own political priorities. When the economy goes through recessions and does poorly, people get more anxious, and some people blame inequality for that, but no one cared about inequality in the 1990s, when incomes were rising across the board.

Chapter 11
Does Free Trade Harm American Workers? (with Don Boudreaux)

Don Boudreaux is a professor of economics at George Mason University. He blogs at CafeHayek.com.

WOODS: Right now I'm reading from Pat Buchanan's book *Suicide of a Superpower*. (N.b.: I'm quite fond of Pat, but I think he's wrong about this.) I'm going to read you some facts and figures, and you tell me if there's anything wrong with these or if there's a different way we can think about them.

He says, "From December 2000 through December 2010, U.S. industrial production fell for the first time since the Depression, and America lost over 3 million private sector jobs, the worst record since 1928 to '38. In the same decade, 5 ½ million U.S. manufacturing jobs, one out of every three we had, disappeared. Manufacturing, 27 percent of the U.S. economy in 1950, is down to 11 percent and accounts for only 9 percent of the non-farm labor force."

He continues, "The Bush II era was the first in U.S. history in which government began to employ more workers than manufacturing.... From December 2000 to December 2010, New York and Ohio lost 38 percent of their manufacturing jobs. Over the same period, New Jersey lost 39 percent and Michigan lost 40 percent." And he goes on to say, "This goes to show" – forget about all your abstract theorizing in your economics departments – "these are the real consequences of free trade, which is why we need to go back to economic nationalism." What is wrongheaded about that?

BOUDREAUX: So much. Where to start? First of all, let's pause it at the beginning, that of course the period from 2001 to 2010 was no great laissez-faire era. Government did grow too much. It is unfortunate that government employment grew. We all agree that that's a bad thing. But beyond that, there's not much of any merit in what Buchanan says. The time period he chose is very suspect, 2001 to 2010. The year 2010 was still in the midst of very high unemployment created by the Great Recession, so the data just on that basis alone are suspect. Of course you're going to have deficiencies in jobs in most sectors because of the time period that he chose.

But more fundamentally, what he fails to ask is: what's happened to living standards over the few decades? He goes back to the 1950s. Well, if you look at what's happened to American living standards, the living standards that ordinary people, ordinary families in America have enjoyed over these past 60 years, they have gone up unquestionably. Ordinary Americans live today at a level of material prosperity that is off the charts, much higher than it was in the 1950s, even than it was in the 1990s. So what matters ultimately is not what kind of jobs you have; what matters is how ordinary people are living.

Now, he focuses on manufacturing jobs. This is sort of a red herring. Yes, it's true, there has been a decline in manufacturing jobs. It is not controversial at all to point out that much – not all – of that decline comes from automation, having nothing to do with international trade. Some of it has to do with international trade. Countries that have a large pool of very low-skilled workers who are willing to do rote assembly work at low wages, they will get some jobs that were once performed in higher-wage countries, such as the United States, but that's a good thing for Americans, not a bad thing. We get more things at a lower cost than we otherwise got.

Buchanan fails to apply his alleged reasoning to a longer period of history. The same things Buchanan says today about manufacturing jobs, you could have said 100 years ago or 90 years ago about agricultural jobs. At one point in this country, agricultural jobs were about 80 percent of all jobs, and look, by gosh, they've largely gone away. Roughly 1 ½ out of 100 jobs today, as opposed to 80 percent of the jobs, are in the agricultural sector. That doesn't mean Americans are somehow poorer; that means Americans are richer. We get food – and by the way, more food, much better food, a larger variety of food – at a lower cost today than we did at any time in the past, despite the fact that we have far fewer Americans actually working on farms than we did in the past.

The same thing is now happening with manufacturing, and largely for the same reason. While some of it is moving to countries that have a comparative advantage in manufacturing, much of the increase in manufacturing output is occurring because of automation. And so Buchanan picks and chooses, he throws out these statistics that seem to the uncritical thinker to make a case against free trade; in fact, they make no such case at all, because the data are poorly chosen and the interpretation of the data are done without any economic understanding.

WOODS: A lot of people will say that what we've been seeing is a transition from manufacturing to a service-based economy, and they seem to be suggesting that there's something inherently better about making physical stuff than there is about performing services for people.

BOUDREAUX: Yes, just as some people in the past argued that there was something physically better about working on a farm than working in manufacturing plants in cities. People do have a fondness for the past. Look, it is true, Tom: people do have this affection for manufacturing jobs, because, particularly for people in Pat Buchanan's generation, those were the stereotypical jobs where the working-class, middle-class worker without a college education spent his or her career and provided for his or her family.

But think about it. Even back then, no one, when you think about the kinds of jobs we want our children to grow up to perform, those jobs are all in the service sector. We want our children to become doctors and lawyers and architects. I've never heard anyone say, you know, son, I really want you to grow up to be a pipe fitter. That's what my dad did. My dad worked in the manufacturing sector. I'm a college professor. I have a much higher income, real income than he could ever dream of by working in the manufacturing sector.

So the manufacturing sector, just like the service sector, has a range of different jobs, some of which pay more than others. There are certainly some manufacturing jobs that still pay more than some service sector jobs. But the service sector is not limited to what people like Pat Buchanan want us to think it's limited to. It's not limited to people working flipping burgers at McDonald's or cleaning rooms at Motel 6. Those are part of the service sector, but the service sector also includes neurologists, it includes college professors, it includes architects, it includes lawyers, it includes people doing medical research, it includes engineers. These are all people in the service sector, and it's that sector that's growing.

And one reason service sector jobs are growing and service sector output is growing – and this is a fact Pat Buchanan and people like Bernie Sanders and Donald Trump miss – is precisely because we can get manufacturing output now using much more automation than we could in the past. That releases workers that releases resources to work in the service sector in those areas that are most responsible today for increasing our standards of living.

WOODS: What about the argument from anecdotal evidence that we hear, that there's a tremendous amount of insecurity that people feel in employment these days, or we have a lot of people who are underemployed? They say that before we had much more economic security, then we got these trade agreements, and now we can barely fit ourselves into the economy. The professors are telling us that our labor has been released so that we can now do other things, but tell that to some guy who's been sitting there unemployed for a year. How do we respond to that kind of claim that we're hearing, that this is a unique sort of economy that we have now, where you don't have the kind of security you used to have?

BOUDREAUX: Yeah, see, I dispute the empirical claim. The 1950s were a unique time in the United States. The rest of the world was largely destroyed by war, and so the American economy then having largely been isolated from the effects of the war didn't have to worry about foreign competition. I think that was bad for America, not good for America. A secure job in itself is not what's desirable. What's desirable is a high and rising standard of living. And our standard of living, as I said before, is high, and it does, despite all the government interventions, continue to rise.

I think the more general point to make, as opposed to disputing the empirical claim, is that when people oppose free trade, what they're really opposing is economic change. What they're really opposing is competition. What they're really opposing is the freedom of consumers to spend the money they earn as they wish, rather than as some political elites would prefer them to spend it. Any kind of economic change – I don't care where it comes from: international, domestic – puts some people out of work and creates jobs elsewhere.

An example I'm fond of using is the Salk-Sabin vaccine for polio. That was largely a domestic process. Salk and Sabin were doctors in the United States; they invented this polio vaccine, and my gosh, look what happened. It worked, and so all these people who played by the rules and were secure in their jobs making wheelchairs and crutches and iron lung machines and working in polio sanitariums, suddenly they find themselves out of jobs. Do we want to stop that? Should we lament that?

Of course not. That's a good thing. This technology made people better off and therefore reduced the demand for people who otherwise had to make things like wheelchairs and crutches. And it's the same kind of thing for any economic change.

Another example I use is, you remember about 15 or so years ago, the Atkins diet was very popular. That was a domestic thing. People chose to consume fewer carbohydrates and more meat, and so you had an increase in the demand for pork and beef and a decrease in demand for donuts and beer. Do we say, oh, this is terrible; we shouldn't allow people to change their consumption patterns, because that causes economic insecurity? Obviously we don't do that.

And then I see nothing about commercial transactions that happen to cross political borders that's any different from commercial transactions or commercial changes that occur within political borders. It's all economic change. So if you say I want to protect existing workers' jobs, I want make existing workers more secure in their jobs by stopping international trade, I will say I'm willing to at least concede that your argument is consistent if you're also willing to say that part of your program is that you're going to prevent consumers from changing the way they spend their money even domestically. Because any kind of change in the way consumers spend their money causes some job insecurity.

So these people who argue against trade, among many other errors they fail to adequately identify just what it is they're opposed to. They think that because some money happens to cross a geopolitical border, that that transaction is somehow unique or distinguishes it from transactions that take place domestically, and in fact, it does not.

WOODS: You said before that in Buchanan's day in the 1950s, it was very common for people to have a job in manufacturing because they could get that job, get reasonable wages, without even having to finish high school, and that today we have different kinds of jobs. But the opponents of your position would say that we may have shed some of these lower-skilled jobs and maybe we are getting higher-paying jobs in replacing them, but the problem is, these low-skilled people don't have the skills, so that the jobs they might have been able to get have either all been automated or exported, so there's no reason that we should say that a free-market economy automatically makes everybody better. What if you're low skilled? All your jobs have been exported or automated now.

BOUDREAUX: Well, I repeat what I just said a moment ago. For some people, this can be true. You can be 55 years old and you were specialized in doing a very certain kind of thing in the market, and suddenly the demand for your services has declined. But there's nothing unique about international trade that brings that about. Any kind of change, it can happen domestically.

WOODS: But they would say that at least in the United States, I'm on a level playing field, because we have a standard of living and cost of living that is roughly equivalent across the U.S., with some variation. Whereas in China, they can afford to work for a dollar a day, and there's no way I can compete with that. That's why I'm losing my job.

BOUDREAUX: Two things I want to say: the first thing, I'm going to push back a little bit. If the problem is that someone who is a decent person, mid-50s, early 60s spent his or her life working in a particular job and suddenly finds that the demand for his or her services has declined, it makes no difference to that person why. It might be because the consumers are now buying what he or she produced from some lower-wage Chinese people, or it might be because fellow Americans have decided they no longer like that product and they're buying something else maybe domestically - from their perspective, it's all the same.

And the more fundamental thing I want to say is that part of the bargain that people make when they work in a market economy involves playing by the rules. Playing by the rules includes the following: that you as a producer respond to consumer demand. The only reason people in our economy are as prosperous as they are is because they have an economy that's largely consumer-driven.

Consumer sovereignty is largely the rule, to the extent that consumer sovereignty is not the rule with poorer, to the extent that we're wealthy – and we're very wealthy – it's because consumer sovereignty is the rule that we play by. And no one should be entitled to say, oh look, I like consumer sovereignty, because it enables me to spend my money as I want, and when consumers were buying things from me for my producer side, it made me reasonably wealthy. I liked consumer sovereignty then. But when consumers change their mind for whatever reason, I want to be an exception to that rule. I want government to prevent consumers from shifting their expenditures away from what I produce and force people to spend their money on what I produce. I want to be an exception to that rule. No one gets to be an exception to that rule. If we made everyone an exception to that rule, then we would be a desperately poor country. All of us would be desperately poor.

Another way to look at it or another aspect of this is to recognize that, despite America's protectionist past, we've never been completely closed off. By 2015, I think it's almost impossible – maybe I need a few exceptions. It's almost impossible to identify any job that's not itself largely the creation of international trade. It's largely impossible to identify any job that exists today that wouldn't have existed today in its current form, had we not had open international trade. I understand that it's difficult to lose a job. Of course I understand that. But being flexible and being willing to play by the rules of consumer sovereignty is required in order to have the kind of prosperity that the people who are losing their jobs don't want to lose.

WOODS: All right, well what about the claim that, given that Americans earn pretty good wages compared to people in other countries – and there are reasons for the differential, but the differential exists – wouldn't the opening of international trade necessarily mean that there'd be a convergence of wage rates somewhere in the middle, so that the people on the lower rungs would see theirs go up, but Americans would see, in competition with these people, their wages go down? Is that true or is it not true, and if it is true, why would they want that?

BOUDREAUX: That's not true. The best way to begin to explain why that's not true is to ask the question, why are Americans' wages as high as they are? Americans' wages are not as high as they are because American workers are enjoying some unearned surplus by being protected from competition. American workers' wages are as high as they are because Americans have a lot of capital to work with, which makes American workers highly productive. And by capital here, I don't mean just highly automated factories that they work in and the machines that they work with. That's part of it, but also the great infrastructure we have. The network of roads that are safe and passable. Deep water harbors that allow people who produce to have their product shipped abroad safely. The system of the rule of law that we have. This infrastructure, broadly conceived, makes American workers highly productive. That's why Americans' wages are as high as they are.

And so when we have more open trade with people in lower-wage countries, in many cases, the lower wages of foreign workers are not necessarily an advantage; they're just a reflection of the fact that those workers produce less per hour than do American workers. Now, the fear is of course that when trade is opened up, that capital will flow to these low-wage countries, because entrepreneurs who build a factory in Pakistan or in Mexico can gain access to low-wage workers, and these workers have this more productive capital, so more production will take place in these foreign countries.

Some of that's true, but what people who tell that story typically miss is that the amount of capital in the world is not fixed. If it becomes more attractive to invest in Mexico or in Pakistan or in Bangladesh, that doesn't make it necessarily less attractive to keep investing in America. The patterns of investment may change. We know from the principle of comparative advantage that when trade opens up, it may be that Mexico has revealed they have a comparative advantage of producing, say, shoes. And so Americans who are currently working in shoe production, will lose their jobs. But that means that Americans have a comparative advantage at producing other things.

You know, when Ross Perot opposed NAFTA – and I agree with you; a genuine free-trade agreement is one sentence, not multi-thousands of pages – which did generally make trade freer between the United States and Mexico, he famously predicted the giant sucking sound. In other words, if you open up trade between high-wage America and low-wage Mexico, all the investments are going to take place in Mexico and none in the United States, because who would invest in high-wage America when they can invest in low-wage Mexico?

And lo and behold, guess what happens. In that time after NAFTA, America's trade deficit with Mexico rose. Now, what that means – it sounds bad, because people don't understand what trade deficit is – is that there was a greater amount of investment by Mexicans in America than there was by Americans in Mexico. So what this reveals is that the factors that make Americans' wages higher – the rule of law, the relative attractiveness of investing in the United States as opposed to Mexico – dominated, for investors, the fact that the hourly wages earned by typical Mexican production workers were lower than were such wages in the United States. And so since NAFTA went into effect, both ordinary Americans and ordinary Mexicans have grown wealthier. I think ordinary Americans have grown wealthier certainly in absolute terms, and I think even relatively so compared to Mexicans, because America compared to Mexico continues to be a more attractive place to invest.

WOODS: If there are industries directly competing with each other, I could see the higher-wage worker's wage falling, but there the offsetting effect would be cheaper goods from abroad, which raise the real wages and salaries of American workers.

What about when we hear about wage stagnation in the U.S.? What has been the real trend in wages in the U.S. over the past 20 or so years?

BOUDREAUX: Yeah, this is a giant myth, and it's one that requires – we could do a whole show on this. I believe that this wage stagnation thing is a complete fallacy. There are official statistics that you can point to if you want to make that case. The Bureau of Labor Statistics gathers a statistic, I forget the exact name, like the Inflation-Adjusted Hourly Wage of a Non-Supervisory Production Line Worker – something like that. Basically an ordinary worker. And if you look at that wage adjusted for inflation using the Consumer Price Index over the past 50 years, it hasn't changed. It has stayed pretty much the same, adjusted for inflation. So people point to that and say see, Americans' wages have stagnated.

Well, this is an average; it's not a wage that tracks individuals. As more and more people enter the workforce – so as we get more immigrants coming into the workforce, as women enter the workforce in larger numbers as they have over these past several decades – the lower wages that they earn tend to pull down the average, even if that has no effect on the actual wages that flesh-and-blood workers are earning.

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More fundamentally, I think the wage measure is grotesquely inadequate. First of all, it does not include non-wage benefits. Non-wage benefits have almost doubled as a proportion of the typical worker's pay package over the – I forget the exact date; I think since 1975. It's gone up from about 10 percent of the typical worker's pay package I believe in the year 1975 to today, 2013, to about 19 percent of that worker's pay package. So that is a part of pay that's not calculated.

But even more fundamentally, as the nature of the economy has changed, the kinds of things that ordinary people consume, that Americans consume, changes. Tools we use to measure economic activity were created back in the 1930s and '40s, national income accounting. These tools I believe are increasingly inadequate to account for the modern economy. So if you look at work hours, if you take a simple measure – not of taking nominal wages and adjusting them for changes in the price level in order to come up with real wages over time, but if you look at the number of hours the typical worker had to work to earn income to buy various goods and services in the past, and then look at the number of hours the typical worker has to work in order to buy similar goods and services today, what you find in almost all circumstances is that the number of hours that the typical American has to work today to buy a coffee maker, to buy a kitchen range, to buy automobile tires, to buy contact lenses, has fallen dramatically.

There are exceptions to the rule, but overall the number of hours a typical person has to work today to buy a standard bundle of commodities or household goods is dramatically lower today than it was in the 1970s. And this is not to mention the improvements in quality – you and I are talking now using a technology that wasn't available even to the richest American in 1975. And we're doing it free of charge.

WOODS: Yeah, exactly. I always wondered how, if at all, this could ever be factored into any official statistic.

BOUDREAUX: It's very, very difficult. This is part of the problem, precisely because – you and I are using Skype now – these official income and economic activity measurement tools were not designed to account for the kinds of economic activity that are so common today. We miss in these statistics a huge amount of the advances. We fail to quantify and measure a huge amount of the advances that ordinary Americans enjoy. And so I believe this wage stagnation story is a complete myth. This is something I've researched a fair amount, and the more I research it, the more I'm convinced it is just nonsense.

It's an older book now, but Mike Cox started this line of research back in the 1990s. Mike's now an economist at SMU, he used to be the chief economist at the Dallas Fed

WOODS: Oh, is this the book *Myths of Rich and Poor* or something like that?

BOUDREAUX: Yeah, it came out in 1999 and it's a very data-rich book, and so it's a little bit dated in its data, because it's already 16 years old, but I've basically tried to update a lot of what Mike and his co-author, Richard Alm, have done in that book. And the story not only continues; it gets stronger. Ordinary Americans are growing richer and richer by the year. There was a blip a few years ago because of the Great Recession, but even that didn't alter the trend very much.

WOODS: Is this work of yours, is this something you're doing on the side, is this something you've had published in anything we can read?

BOUDREAUX: Yeah, I have a lot of it on my blog, Tom. I would like to assemble it in one space. I'd be happy to send to you some links to things on my blog.

WOODS: Today's show notes page will be TomWoods.com/480, and I definitely want to link to this, because this is really the meat of the whole question right here, the trend in living standards.

I've sometimes thought: do you really want to be back in the '70s listening to your 8-track tapes and your exploding Pinto without air conditioning? There are so many things that people today would find absolutely intolerable, they would be begging to get back to 2015.

Chapter 12
What's Wrong with the Overall Sanders Approach? (with Grant Phillips)

Grant Phillips is a writer who blogs at [TheModernLibertarian.com](), and is an administrator of the [We Are Capitalists]() Facebook page.

WOODS: What's Sanders' overall way of looking at the world? What's the big-picture philosophy that he's trying to convey in these huge rallies of his?

PHILLIPS: Well his big-picture philosophy is basically that the economy is a fixed pie. Everything is a zero-sum game, which is to say that one person's gain comes at another's expense. And as we know, that's not true, because if it were true, I would still be driving a horse and buggy. That's how production happens. Wealth is created; when new technology is created, wealth is created.

He believes it's a static economy. Now, he also confuses a lot of statistical categories with flesh-and-blood human beings, as far as income and wealth go, and especially as far as poverty goes. He almost sees the economy as if it's flat, as if it doesn't change, it's always the same. And I don't think he really understands the real quality-of-life gains that have been made in the United States in the last 30 years.

WOODS: I think one of his claims is that the quality-of-life gains have accrued only to those at the very top, and that everybody else – the so-called 99% – has enjoyed no such gains, and if anything, they've stagnated or even retrogressed. What is the truth about that?

PHILLIPS: In 1970, 36 percent of *the entire U.S. population* had air conditioning, something today that most of us take for granted. Fast forward to today, and 80 percent of *poor households* have air conditioning. That alone speaks volumes about the availability of goods for low-income households. Ninety-two percent have a microwave; three-fourths have a car or a truck; two-thirds have cable or satellite TV. That's huge. And he really overlooks that and boils those gains down to statistical categories, meaning he sees income going to one category or another and assumes that nothing within that category has changed and that the very same people are in it today as there were 30 years ago. That's just not the case.

WOODS: One way to become aware of the progress that's been made is to realize that most of us have amenities in our cars that people didn't have in their houses a generation or two ago. You can listen to an mp3 player – a CD player is kind of passé now. And you have air conditioning in your car. And now you've got ways to communicate with people in your car; you've got video screens of various kinds in your car; you've got a camera to make sure you're not going to hit anybody when you back up. You've got ridiculous amenities that nobody had, period, not even in their houses in some cases.

I would ask people, if you really think there's been no gain for you, you're telling me you would rather live in 1977 than in 2015? You feel like you'd be driving a nicer car? You feel like you'd have better technology at your disposal? You feel like you'd have more leisure time, working in 1977? I think if I put it that way, people would prefer not to get in that time machine.

PHILLIPS: There are goods available to low income households today that John D. Rockefeller could not even have begun to imagine. And that's huge. That speaks volumes about the gains that have been made in our economy.

WOODS: What about the CEO salary thing? That gets a lot of attention. The argument is that the CEO is getting a huge,

huge salary, and that the gap between the CEO and the typical employee is widening, and that this is a social problem.

PHILLIPS: One of my fellow administrators on the We Are Capitalists Facebook page did a wonderful article on this. There was an Occupy Democrats meme that listed all these random companies and the per-hour salary of their CEOs, and he found that if you completely eradicated the CEO's pay from each of these companies, none of their workers would come close to receiving even a 50-cent raise. So that kind of puts it into perspective: even if you were to lower the CEO's pay accordingly, how much do you really expect to gain on the other end of it?

And secondly, it comes back to niche skills in a market that are in high demand. Anyone can be a cashier. Anyone can pour coffee. But to manage the risk of billions of dollars, that's not something you can just find anywhere. That's something that you have to pay heavily for.

But even statistics with CEO pay are extremely misleading. I think the Economic Policy Imstitute said that CEO pay has grown 1,020 percent since 1980, but that's because they took pay of the top 250 corporations, their CEOs, and then took also their stock options and included that as compensation, and then said, look, the average CEO pay has increased. Obviously that's completely disingenuous. It doesn't really expand to the bigger picture of our economy.

WOODS: And the people who complain the loudest about this also want to place limits on corporate takeovers, even though that's precisely how you would deal with a company whose CEO compensation was truly out of control.

I can understand, though, in an age of globalization why a CEO's salary might increase faster than the salary of the janitor on the fifth floor. I can think of benign explanations for this.

In a globalized economy, your customer base is potentially much, much larger. Therefore, the impact of the decisions that you make as CEO are much more far-reaching. If you're wrong, it's devastatingly wrong, and you've got to carry that on your shoulders. Your every moment becomes very, very important and significant. So I can understand.

I guess we should say a little something about the whole matter of income inequality, because that really is at the heart of all this. I don't care about income inequality. It doesn't affect me in any way. I'm looking forward to Yaron Brook's book next year that just outright celebrates income inequality, because there's nothing morally wrong with it. The moral problem is dwelling on it and obsessing over it, when none of these people owe you anything.

Now let me anticipate an objection that I will get my inbox filled with if I don't insert this caveat. I know there are some people who got their wealth through means that are disreputable or that involve special government privileges. Obviously I'm not talking about those people. But I am talking about great innovators, who in my view deserve our admiration, not our contempt. The contempt should be for people who have never done a thing to increase our standard of living, and that's the political class.

PHILLIPS: When people talk to me about income inequality, I say the same thing. Income and wealth – I enjoy reading scholarly research about it, but as a political issue, it's meaningless. I put it this way: would you rather have 50 percent of a $100 pie, or would you rather have 25 percent of a $1,000 pie?

I've never once denied that income inequality exists. I think how you measure it affects your perception of it. Thomas Piketty selects data very, very vaguely, and sort of puts it in a way that doesn't really add up. And it's not very inclusive. It doesn't include transfer payments, gifts of inheritance, income in kind, or net increases in the real value of assets. But if you include all these things and if you put a different timestamp on it as far as when the income is realized, income inequality dramatically reduces. Over the course of the twentieth century, there has been a sharp reduction in wealth concentration, because people have become more productive and the pie has grown....

WOODS: You have an article analyzing the "Ask Me Anything," the AMA session that Sanders did on Reddit. Did you find any real gems in that session?

PHILLIPS: Yeah, my favorite – and it's because I work in high-tech manufacturing for a machine shop that does some of the most complex work in the country – is that the reason the middle class has declined is that good-paying manufacturing jobs have gone overseas. First of all, good-paying manufacturing jobs have not gone overseas. Low-paying manufacturing jobs have gone overseas; otherwise, they wouldn't go over there. So drawing on data from the Federal Reserve, again, low- and middle-skilled jobs have declined, but high-skilled manufacturing jobs have increased.

And actually one big misconception is that there is somehow a loss of jobs in manufacturing, because for one – I'm just speaking from experience – we struggle to find young people who are talented, very well versed in manufacturing, whether that's CNC programming, CNC operating. And these are $28-an-hour jobs that are great jobs, that if you don't go get a gender studies degree or an ancient Japanese history degree, you might be better off with taking these jobs. But again, there's a shortage there.

And drawing on that as well, if you look at output, in 2009 we ranked higher than China in terms of manufacturing output. So why have we seen this decline of jobs, but output keeps going up? Well, it's not that manufacturing has declined; it's just that it has changed dramatically. Instead of making trinkets and dolls and little things that no one wants to make for $7.25 an hour, we're making high-tech 3D scanning equipment; we're building semiconductor equipment that makes the smart chips in your iPhone; we're building high-tech manufacturing robots. So these are things that companies come to the United States specifically for us to build, because of our cutting-edge, high-skilled labor force.

WOODS: Related to this is the proposal – I don't know if it's an express proposal from Sanders or it's just a meme from his supporters – for tuition-free university, again using Europe as a model. There are European countries where you can go to school for free, and shouldn't we have that here? Wouldn't that be great? Is there any problem with that? Wouldn't that help people get jobs better, if we had free college for everybody?

PHILLIPS: Not one bit, and anyone who's been through the university system, such as myself, in the last 10 years, can probably attest to that. Education today, as it becomes more and more subsidized, is becoming more and more expensive. Even the Brookings Institution, which is a fairly left-leaning organization, notes that net college tuition – meaning what you pay – has increased only 13 percent, whereas actual tuition sticker price has increased enormously, because the market's become a competition for government funding and not for actual consumer demand.

But looking at the European model, you immediately see numerous flaws. Let's take Finland, for example. I know that's a popular one; people like Finland. In Finland, if you want to teach just in their high school, really, you have to have a master's degree – which is a pretty demanding requirement – yet starting pay is only $29,000, whereas in the U.S. it's $36,000.

In Germany, another popular example, college is free for everyone. No matter what. No matter where you're from, anything. You go to Germany, you can get a free education. Now, what's happening is that people have come to Germany for outcomes, not opportunities. So approximately 10 percent of their total enrollment consists of foreign-born students, so they haven't contributed anything to the tax base, their family hasn't contributed anything to the tax base, but they are there being a tax drain. Now this isn't a shot against immigration or anything; it's just worth noting that when you make something free, people flock to it, and it inherently becomes more expensive, more costly. Just because it's free doesn't mean the costs vanish and they just come out of nowhere.

WOODS: When I asked this question of David Friedman in an earlier episode, he said very bluntly (which is his usual way): I think there are too many people in college now.

And I remember when I was finishing up grad school, I was still working on my Ph.D., so I wound up accepting a job at a community college. Here you see a wide variety of skill levels. These are people who are very smart but just want to save money for two years – or, I should say, were very smart and wanted to save money for two years; that makes sense. Or there were people who, if they really, really applied themselves, could scrape by. And then there was the class of people who, as my department chair put it, we were simply keeping entertained on their way to oblivion.

And it seems that the more you make things costless and requiring no sacrifice on your part, the more the marginal student winds up going, who really should be doing something else. And of course in a free society, you would find ways to fund school for people who really and truly need it. Naturally, industry would help to do it, to make sure people get the training that industry itself needs.

I graduated college in '94. Everybody was getting jobs. Everybody was turning down jobs, left and right. It was incredible. You majored in sociology; it didn't matter. You could get a job. It's harder to do that nowadays, I'll grant you. But at the same time it is a heck of a lot easier than it's ever been to acquire marketable skills that can earn you some dough. I want to mention, for example, something that I mentioned on this show many episodes ago; I just happened to read an article about it. It's called Hack Reactor, out on the West Coast, and it's a place where you can become a programmer. And their program is either – I don't remember if it's 12, 14, or 16 weeks – no more than 16 weeks. But it's extremely intensive. You may as well wave goodbye to your family and friends for those 16 weeks. You just work and work and work. But on the other side, you wind up with 95 percent of these people getting jobs at an average starting pay of $105,000, for the tiniest fraction of what they would pay for the sociology degree.

PHILLIPS: You're right that education is becoming more available. There's a wonderful website called Coursera, where they let you have access to college professors, and it's not through a school; it's directly through the college professor. So right now I'm taking a macroeconomics class, just kind of at my own pace, whenever I feel like getting on my computer. It's all taught through an economics professor from Drexel University. I think we've had different opinions, but it's still very interesting, very accessible.

And going back to what you said about people who go to school who actually want to be there and not just for their own fulfillment: Denmark is a wonderful example of that. In Denmark, you can go to school as a saxophonist to the Royal Danish Academy of Music with courses and a monthly stipend of $1,000, and all of it's free. Now, the problem is that this is an investment on the part of the government in what amounts to a skill set that's in low demand and probably won't generate much productivity. If you look at what Business Insider says, the Danes suffer from a lack of productive employee-driven skill sets, the necessary skill sets like engineers and computer programmers, and it's largely because people go to college for their own enjoyment or fulfillment.

WOODS: Well, a couple things to say there. I have my own thing that costs a lot less money, where people who are interested in, let's say, economics from our perspective, or history, or some of these related areas, who feel like maybe they didn't get the real story in college – they got a slanted view or they got an extremely predictable, mainstream view – can get a view that is more thought-provoking and that has more of a libertarian slant to it. So that's my LibertyClassroom.com. We've got 14 courses as of this moment. And they have access to me and the other faculty anytime they want, and it's $99 a year, and I'm always giving discounts [see Appendix D]. Compare that to what is being spent on this other stuff, and a lot of it's propaganda in any case, and there's just no comparison. It's incredible what's available, what people can do, what the Internet makes possible these days.

And in fact, in this very episode, I talk about Code School, which I've been promoting because I'm such a fan of it. Code School is place where, for a very small monthly fee, less than a buck a day, you can learn coding. You can learn HTML and all the other stuff that you would need to know to get into development, to be able to have a skill that you can earn real money from. And you don't have to go through some government job-training course that costs $20,000 a person and then doesn't wind up placing you in what you were trained for – the usual, dismal outcome of government job-training programs. Code School is about $29 a month.

In other words, there are ways today that you can get skills for yourself, if you really want them, that will not cost you $80,000 or $200,000 and make you a debt slave for the rest of your life. The private sector has done it. It's not the government sector.

Get content like this every day by subscribing to the Tom Woods Show on iTunes or Stitcher for free!

APPENDIX A

Enjoyed This Free Ebook? Here Are Two More!

That's right: I have two more books for you. The first one, pictured above, is a veritable primer on liberty, filled with topics freedom-lovers need to know and objections they need to answer. And it's a ton of fun to read, too.

I'm going to prove you want this free eBook. Just check out the topics covered:

Separating School and State
Tom talks to Sheldon Richman, author of *Separating School and State: How to Liberate America's Families.*

The Poverty Cure
Michael Matheson Miller, who directs Poverty Cure, talks about entrepreneurial solutions instead of foreign aid for the developing world.

Against the State
Robert Higgs, author of *Crisis and Leviathan: Critical Episodes in the Growth of American Government*, joins Tom for a wide-ranging discussion.

Want to Lose Weight? Don't Count Calories
Jonathan Bailor, author of *The Calorie Myth: How to Eat More, Exercise Less, Lose Weight, and Live Better*, on why "counting calories" is a misguided approach to diet and health.

Doug Casey on the World
Renowned investor, author, and entrepreneur Doug Casey joins Tom to talk about investing, the Fed, the economy, and politics.

Bitcoin: Objections and Replies
Erik Voorhees joins Tom to discuss recent developments surrounding Bitcoin, and replies to objections to Bitcoin.

Afghanistan 101
Tom asks veteran journalist Eric Margolis for an overview of the Afghanistan situation, from 2001 to today. The result is mind-blowing.

Nullify the NSA!
Tom talks to the Tenth Amendment Center's Mike Maharrey about the NullifyNSA campaign.

Before the Welfare State

What did people do before the welfare state? David Beito, professor of history at the University of Alabama and author of From *Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890-1967*, joins Tom to offer an answer.

The Paramilitary Police
Will Grigg discusses the origins of the growing U.S. police state, as well as recent outrages.

The Conservative Mind
Brad Birzer, professor of history at Hillsdale College, talks about Russell Kirk, a central thinker of postwar conservatism, including his relationship with libertarianism.

Mind Your Own Business
Former CIA counter-terrorism expert Phil Giraldi argues for nonintervention.

What's Wrong with the Economy?
Is there something fundamentally wrong with the U.S. economy? Bob Murphy explains.

Thanksgiving Turkey with Heather Woods
Tom's wife, Heather, explains how to make a perfect turkey every time. She also reveals what they talked about on their first date [!!].

Is ADHD Overdiagnosed?
I talk to Dr. Enrico Gnaulati, author of *Back to Normal: Why Ordinary Childhood Behavior Is Mistaken for ADHD, Bipolar Disorder, and Autism Spectrum Disorder.*

How to Do Economics
Danny Sanchez of the Mises Academy explains Ludwig von Mises' approach to economics.

The Free State Project
Carla Gericke, president of the Free State Project, joins me to discuss the Free State Project's strategy for liberty.

The Not So Wild West

P.J. Hill, co-author of *The Not So Wild, Wild West*, tells the true – and libertarian – story of the old West.

The Gettysburg Address
Richard Gamble, professor of history and political science at Hillsdale College, joins Tom to discuss the 150th anniversary of the Gettysburg Address. Warning: the commentary on this program may be slightly different from what you heard from other sources on this anniversary.

Will Robots Take Our Jobs?
Dr. George Reisman, author of *Capitalism: A Treatise on Economics* and professor emeritus at Pepperdine University, tackles this and other questions about capitalism.

Friedman on Statelessness
David Friedman teaches in the School of Law at Santa Clara University, and is the author of *The Machinery of Freedom: Guide to a Radical Capitalism*. He discusses anarcho-capitalism, as Tom plays devil's advocate.

Murphy Takes on MMT
Tom talks with Robert Murphy about Modern Monetary Theory.

The Revolution of 1913
Tom DiLorenzo covers the Fed, the income tax, and the direct election of senators.

So Where's the Inflation?
Mark Thornton answers the "where's the inflation?" question, and also explains his theory of the "skyscraper curse."

That Australian Minimum Wage
Has Australia defied the laws of economics? Ben O'Neill, professor of statistics at the University of New South Wales, joins Tom to set the record straight.

Be Prepared
Jack Spirko, host of the The Survival Podcast, talks with Tom about the importance of preparedness.

But…Somalia!
Benjamin Powell, Director of the Free Market Institute at Texas Tech, answers the common Somalia objection.

The Paleo Solution
Robb Wolf, the *New York Times* bestselling author of *The Paleo Solution,* talks diet and health with Tom.

The American Police State
John Whitehead, author of A Government of Wolves: The Emerging American Police State, on the militarization of the police.

Ron Paul Continues the Fight for Liberty
Ron Paul discusses his ongoing projects – the Ron Paul Curriculum, the Ron Paul Channel, and the Ron Paul Institute for Peace and Prosperity – and answers listener questions.

WWE's Kane: Libertarian
Glenn Jacobs, the WWE's "Kane," stops by to talk liberty, the WWE, Ron Paul, and the future.

Do We Need the State?
Gary Chartier, author of The Conscience of an Anarchist, doesn't think so.

Keynes and His Errors
G.P. Manish gives a basic overview of the problems with Keynesian economics.

The Recycling Racket
Floy Lilley explains why compulsory recycling makes no sense.

The Crony Capitalists
Hunter Lewis discusses his book *Crony Capitalism in America, 2008-2012.*

Murphy Answers Questions
Robert Murphy talks with Tom about the Nobel Prize in economics, Austrian business cycle theory, and Keynesian contradictions.

Lew Rockwell Remembers
Lew Rockwell, founder and chairman of the Ludwig von Mises Institute, takes a trip down memory lane with Tom.

Fix the Economy: End the Fed
Hunter Lewis, author of *Free Prices Now!*, talks with Tom about all the ways various prices are fixed or interfered with in the U.S. economy.

Is Sweden a Good Model?
Per Bylund, research professor at Baylor University, talks with Tom about the Swedish welfare state.

The Neocons: Who They Are
Daniel McCarthy, editor of *The American Conservative*, talks with Tom about the origins and plans of the neoconservatives.

Objections to Libertarianism
Walter Block, author of *Defending the Undefendable*, covers some Libertarianism 101.

Reject the Food Pyramid
Mark Sisson, American fitness author and blogger, talks with Tom about the Primal Blueprint and its benefits for health and weight loss.

States' Rights and the Founding
Kevin Gutzman, historian, constitutional scholar, and Madison biographer, overturns the standard narrative of the American Founding advanced by the mainstream, by left-liberals, and by neoconservative Straussians alike.

Guns 101
Larry Pratt, Executive Director of Gun Owners of America, talks about gun basics: what to buy, whether you should have a gun safe, etc., and takes on the common arguments for gun control.

Why Nonintervention?

Daniel McAdams, executive director of the Ron Paul Institute for Peace and Prosperity, argues for a non-interventionist foreign policy.

The DUI Racket
Attorney Warren Redlich, author of *Fair DUI: Stay Safe and Sane in a World Gone MADD*, on the lunacy of drunk-driving laws and what you should do if pulled over.

Jethro Tull's Ian Anderson
Tom talks to Ian Anderson, vocalist and flute player (among other instruments) of the legendary band Jethro Tull, which has sold over 60 million albums.

Ben Swann and Independent Journalism
Award-winning journalist Ben Swann on his influences, and on the future of independent journalism in America.

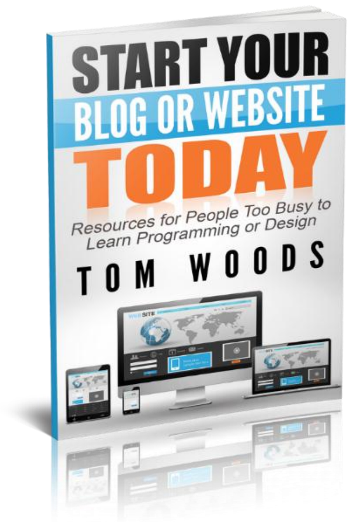
The Heroic Tenth Amendment Center
Michael Boldin, founder and executive director of the Tenth Amendment Center, on the spread of state nullification.

Convinced? To get a PDF version of the book, click here. For the Kindle version, click here.

(Remember, when downloading from the Internet, you right-click, not left-click, on your mouse, and then choose the option to save the file to your computer. If you're on a tablet, just press down on the link until the option comes up to save the file.)

Now here's the second free eBook:

Want your own blog or website, but don't know what your first steps are supposed to be? This short eBook walks you through the process, step by step – and gives you tips for keeping visitors coming back again and again!



In this eBook, you'll learn:

- How to start your own blog in about five minutes – **click here** to watch my step-by-step video!
- How to create a beautiful website without any special skills
- How to give your website a snappy domain name, when so many are already taken
- How to build a mailing list, so you can bring your site visitors back – and even turn them into customers

- How you can use your website to increase your job security
- How I create free eBooks to maximize signups to my mailing list
- How I'm able to tell an audience, "Text LIBERTY to 33444 to get my free eBook and weekly letter"
- What landing pages are, and how you can use them to promote yourself
- Discount codes to save you money as you start your website
- And much more!

Don't put it off any longer – get started on that blog or website by downloading my free eBook today! Get it as a PDF, an EPUB, or for your Kindle.

APPENDIX B

Free Bonuses For Homeschoolers
$140 Worth, To Be Exact

If You're a Homeschooling Parent, You're Probably Working Too Hard

Chances are, you're exhausted.

You're trying to do it all, and you're overwhelmed. You always feel you're falling behind. You may even have come close to throwing in the towel and sending them to the government's schools.

There is a better way – one that passes on your worldview, helps students learn how to learn, and gives you back your free time, and your mental health.

It's the Ron Paul Curriculum – the story of liberty, K-12.

The Struggles of the Homeschool Parent

Do you recognize yourself in any of these?

- Fighting the sense of being unprepared
- Picking exactly the right materials
- Preparing daily lesson plans – for years
- Keeping every student motivated every day
- Staying ahead of your children in all courses: algebra, calculus, chemistry, physics
- Hearing this: "Do you even understand this?"
- Lack of time to plan educational outings
- Wearing too many hats every day
- Moving from parent to teacher and back
- Being resented as a homeschool nag

- Not paying enough attention to your preschoolers
- Emotional burnout

With the Ron Paul Curriculum, you can say goodbye to all that – to running yourself ragged, never feeling caught up, and finding your house a mess and yourself an emotional wreck.

What's more, your students will learn more than ever, from instructors you can trust, in a curriculum endorsed by Ron Paul himself.

Who Am I?

I'm Tom Woods, the *New York Times* bestselling author of 12 books, including *The Politically Incorrect Guide to American History and Meltdown*, a book on the 2008 financial crisis, featuring a foreword by Ron Paul. I hold a bachelor's degree in history from Harvard, and my M.A., M.Phil., and Ph.D. from Columbia University. I'll be teaching government and Western civilization to your high school students.

I've worked closely with Ron Paul over the years. I've been his opening speaker at countless events (including his great Rally for the Republic in 2008), at Dr. Paul's invitation I testified before Congress on auditing the Fed, and Dr. Paul asked me to write the Mission Statement and Statement of Principles for Campaign for Liberty, the organization he created after his 2008 campaign.

I set up a special page of my own – RonPaulHomeschool.com – because I have some gifts to give you if you decide to join us – but only if you join through one of the links below. More on those later.

A Great Education – and No More Struggles

The Ron Paul Curriculum is self-taught. Even before the junior high grades, parents don't have to teach. Students learn from daily videos, and from the Q&A forums in which students ask – and answer – questions.

What this means:

- Students learn at their own pace
- Students learn how to learn
- Students will be better prepared for college

This is Ron Paul's most important achievement, and it's what he dreamed of doing even during his congressional career. Now, it's here.

How We're Different – More Examples

1. No textbooks. Textbooks are a terrible way to learn. They're written by committees, they're bland, they reflect the conventional wisdom – which is often dead wrong – and they're expensive. Save money and give your students a better education by ditching them forever.

(In a couple courses we use a textbook just to fill in some gaps if the students need that, but the book is available online for free.)

2. We use a lot of primary sources. That means students will read some of the great thinkers and historical figures for themselves, without a textbook telling them what to think.

3. Video-based curriculum. Each full-year course consists of 180 videos – five videos per week for 36 weeks. Every single lesson will have a reading assignment and a video. Students learn much better with video instruction than with a bunch of readings alone.

4. Writing. Every course in the humanities and social sciences has a writing assignment every week. This will train your students to become good writers – a rare skill.

5. Review! Mountains of information won't do any good if your students don't remember it. Review is central to how we learn. So we begin every lesson with a brief review of the previous lesson, and every fifth lesson is a full review of what's been taught during that week.

Why is a self-taught, video-based curriculum better?

- Most people need verbal guidance to learn.
- Students can replay a video until they understand.
- A video boils down fundamental information.
- It reinforces reading assignments.
- It explains reading assignments.
- A good lecture livens up learning.
- It is more personal than reading.
- A good lecture is highly motivational.
- Images and outlines help us to remember.
- It is available at any time.
- Headphones reduce sibling distractions.
- A screen image helps students focus.
- Students learn how to take notes – a skill crucial for college.

Check out the list of courses. The elementary grades are still in process (as of 2015), but most of this K-12 curriculum is ready to go now. Click on a course to find out more information and to watch a free sample. But be sure to come back to this page, because this is the only place where you can get your $140 in free bonuses for joining!

In addition to the traditional subjects, our curriculum has courses your students won't be able to find anywhere else. For instance, imagine having your children take courses on:

- ✓ How to start a home business

- ✓ How to write advertising copy – a skill that practically guarantees them a job
- ✓ How to become a skilled public speaker
- ✓ Personal finance for teens (why is no one else teaching this?)

Even our traditional subjects are taught in an extraordinary way:

- ✓ Two full years of Western civilization, instead of the usual one year
- ✓ Two full years of Western literature, designed to run parallel to the Western civilization courses – there is nothing like this, anywhere
- ✓ Junior high science: building radios, robots, and more
- ✓ Economics: learn true economics, better and more reliable than what's taught in college

What Parents Are Saying

As a single parent with limited resources, I cannot adequately express how valuable RPC is to our lives. The increase in the standard and quality of our living is immeasurable.

Now that RPC has given me some confidence and freedom for homeschooling my kids, I am able to begin building and establishing a home-based business. – **Justin Rash**

My daughter loves this program. She thought the public schools were great, but once she started the Ron Paul Curriculum she never wanted to go back. – **Robert Paul Spencer**

This year, my 3rd, 4th, 6th, 8th graders began RPC.

It. Is. Incomparable. To anything else out there.

My little ones are immersed in quality, classic literature, and have loved the books they are blessed to be able to read each day. The elementary education is rock solid. I am learning just as much as the kids are!

My older children are even more spoiled. First, I love the self-learning concept. It's how they should be learning, and it best prepares them for college.

My 11-year-old loves the format. He feels in control of his own learning. Finally! He is excelling as I had only dreamed he would.

My home is more peaceful and structured. My kids are learning so much that I have no doubt they're surpassing all grade level expectations, and I am thrilled with the content and approach of RPC.

Make the switch now. It will change your life. – **Alicia Thorson**

The Ron Paul Curriculum has a 95 percent renewal rate – unheard of in this field. The parent testimonials you just read help explain why.

And here's the rest of the story: how a self-taught, video-based curriculum will make your life easier:

1. Homeschooling is not a good environment for live lectures.

2. Live lectures take enormous amounts of time to prepare.

3. Live lectures must be given in every course, every year.

4. Teachers soon abandon live lecturing . . . or never try.

5. A video can be reviewed for content by parents.

6. Advanced courses are taught by experts in the field.

7. No parent can match experts in every field.

8. Discipline problems disappear fast.

9. Student boredom disappears.

10. You do not have to nag as much.

11. You can see what each student is doing.

12. Making daily lesson plans ends forever.

How Much Does It Cost?

Whether you have one child or fifteen, an annual subscription to the Ron Paul Curriculum site is only $250 (if you choose renewable billing; it's $350 otherwise). Then it's just $50 per 180-video course – an incredible value.

Your $140 in Free Bonuses – Available Directly From Me Only!

If you join the curriculum via one of the links on this page, you'll get these great bonuses!

FREE Bonus #1: A signed, personalized copy of my book *The Politically Incorrect Guide to American History* (retail price $19.95), featuring an endorsement by Ron Paul. This book spent 12 weeks on the *New York Times* bestseller list – to the consternation of the *Times* itself!

FREE Bonus #2: A ten-lesson bonus course, valued at $19.95, on the foundations of liberty. This course is suitable for students in the junior high grades and up, and it will prepare them for this liberty-based curriculum.

FREE Bonus #3: A one-year subscription to Liberty Classroom, my adult enrichment site that 's also been used by many homeschoolers. We have 13 courses on history, economics, philosophy, and more, plus discussion forums, live events, recommended readings, and a great community of liberty learners. That 's a $99 value – free!

These free bonuses won't be available forever, so grab them while you can by joining the Ron Paul Curriculum through my special site, RonPaulHomeschool.com.

"A student who goes through this curriculum, kindergarten through high school, will have a mastery of the foundations of liberty," says Ron Paul. "There is no other curriculum on the Web to match it."

You Can't Go Wrong with this Guarantee!

We're so absolutely sure that the Ron Paul Curriculum is your best homeschooling option that we're offering an unconditional, no-questions-asked 60-day money back guarantee.

If for whatever reason the Ron Paul Curriculum does not satisfy you in any way, simply send us an email within 60 days from your purchase and we'll refund you right away!

So, if for any reason you're not happy, you can get your money back within 60 days. Simply contact us. No monkey business.

Pass on your worldview, and give your students the extraordinary advantages of the Ron Paul Curriculum by joining today – risk free!

P.S. Want to see a sample course outline? Here's my half-year, 90-lesson course on government, suitable for high school students.

Lesson 1: Introduction
Lesson 2: Natural Rights Theories I (High Middle Ages to Late Scholastics)
Lesson 3: Natural Rights Theories II (Locke)
Lesson 4: Natural Rights Theories III (more recent theories)
Lesson 5: Week 1 Review
Lesson 6: Locke and Spooner on Consent
Lesson 7: The Tale of the Slave
Lesson 8: Human Rights and Property Rights
Lesson 9: Negative Rights and Positive Rights
Lesson 10: Week 2 Review
Lesson 11: Critics of Liberalism: Rousseau and the General Will
Lesson 12: Critics of Liberalism: John Rawls and Egalitarianism
Lesson 13: Critics of Liberalism: Thomas Nagel and Ronald Dworkin
Lesson 14: Critics of Liberalism: G.A. Cohen
Lesson 15: Week 3 Review

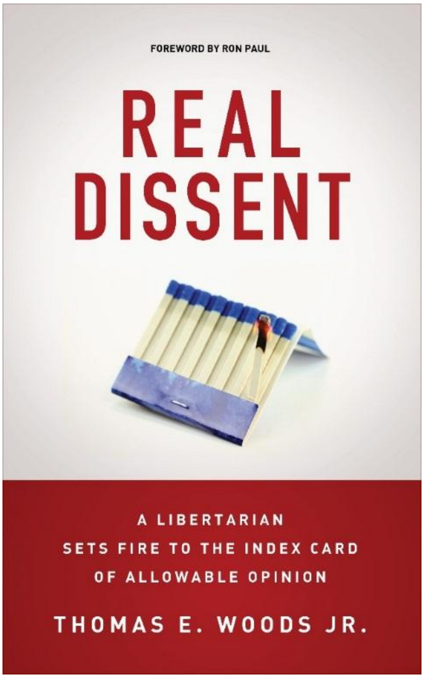
Lesson 16: Public Goods
Lesson 17: The Standard of Living
Lesson 18: Poverty
Lesson 19: Monopoly
Lesson 20: Week 4 Review
Lesson 21: Science
Lesson 22: Inequality
Lesson 23: Development Aid
Lesson 24: Discrimination
Lesson 25: Week 5 Review
Lesson 26: The Socialist Calculation Problem
Lesson 27: Working Conditions
Lesson 28: Child Labor
Lesson 29: Labor and Unions
Lesson 30: Week 6 Review
Lesson 31: Health Care
Lesson 32: Antitrust
Lesson 33: Farm Programs
Lesson 34: War and the Economy
Lesson 35: Week 7 Review
Lesson 36: Business Cycles
Lesson 37: Industrial Policy
Lesson 38: Government, the Market, and the Environment
Lesson 39: Prohibition
Lesson 40: Week 8 Review
Lesson 41: Taxation
Lesson 42: Government Spending
Lesson 43: The Welfare State: Theoretical Issues
Lesson 44: The Welfare State: Practical Issues
Lesson 45: Week 9 Review
Lesson 46: Price Controls
Lesson 47: Government and Money, Part I
Lesson 48: Government and Money, Part II
Lesson 49: Midterm Review
Lesson 50: Week 10 Review
Lesson 51: The Theory of the Modern State
Lesson 52: American Federalism and the Compact Theory

Lesson 53: Can Political Bodies Be Too Large?
Lesson 54: Decentralization
Lesson 55: Week 11 Review
Lesson 56: Constitutionalism: Purpose
Lesson 57: The American Case: Self-Government and the Tenth Amendment
Lesson 58: The American Case: Progressives and the "Living, Breathing Document"
Lesson 59: The American States and the Federal Government
Lesson 60: Week 12 Review
Lesson 61: Monarchy
Lesson 62: Social Democracy
Lesson 63: Fascism I
Lesson 64: Fascism II
Lesson 65: Week 13 Review
Lesson 66: Marx I
Lesson 67: Marx II
Lesson 68: Communism I
Lesson 69: Communism II
Lesson 70: Week 14 Review
Lesson 71: Miscellaneous Interventionism: Postwar African Nationalism
Lesson 72: Public Choice I
Lesson 73: Public Choice II
Lesson 74: Miscellaneous Examples of Government Activity and Incentives
Lesson 75: Week 15 Review
Lesson 76: Industrial Revolution
Lesson 77: New Deal I
Lesson 78: New Deal II
Lesson 79: The Housing Bust of 2008
Lesson 80: Week 16 Review
Lesson 81: Are Voters Informed?
Lesson 82: Is Political Representation Meaningful?
Lesson 83: The Myth of the Rule of Law
Lesson 84: The Incentives of Democracy
Lesson 85: Week 17 Review

APPENDIX C

Free Audiobook

For my 2014 book *Real Dissent*, I narrated the audiobook version of one of my books for the first time ever. (The book is also available in paperback and in an inexpensive Kindle edition.) Visit the book site, RealDissent.com, for more information and for a link to a free copy of the audiobook version!



APPENDIX D

Want To Win More Debates With Leftist Friends?

In 2012 I created LibertyClassroom.com, a project separate from the Ron Paul Curriculum, out of frustration at the kind of history and economics people were generally learning in high school and college. I have no control over the composition of college faculties. What I do have control over are my own time and efforts.

I wanted an adult enrichment site for people who'd like to learn the real thing, but don't really have time and lack reliable sources.

Liberty Classroom is for you if:

- you've ever found yourself in an argument with friends or family, knew you were right, but just didn't have the command of history or economics to win;
- you want your college student to have a lifeline to reliable professors;
- you wish you'd gotten a more reliable education;
- you're tired of trying to fill in the gaps in your knowledge haphazardly;
- you feel like there are too many books you should read, and you don't know where to start;
- you want the self-confidence that comes from real mastery

At LibertyClassroom.com, people can download courses that can be watched or listened to (we have both video and audio files for every lecture) on a computer or on mobile devices. We have Q&A forums in which you can ask faculty your questions. We also offer recommended readings, and host a monthly live video session with faculty. Every year we add several more courses to our offerings.

As of this printing we have 14 courses: U.S. History to 1877, U.S. History Since 1877, Austrian Economics: Step by Step, American Constitutional History, Western Civilization I, Western Civilization II (these are not my courses for the Ron Paul Curriculum; these are much shorter courses, taught by Professor Jason Jewell), Introduction to Logic, History of Political Thought (parts I and II), The American Revolution: A Constitutional Conflict, John Maynard Keynes: His System and Its Fallacies, and What 's Wrong With Textbook Economics? (a chapter-by-chapter refutation of a popular college textbook in economics), A History of Conservatism and Libertarianism, and Trails West: How Freedom Settled the West.

These courses are taught by me and by people I trust, like Jeffrey Herbener (associate editor of the *Quarterly Journal of Austrian Economics*), Kevin Gutzman (biographer of James Madison), Brion McClanahan (author, *The Founding Fathers Guide to the Constitution*), Jason Jewell (associated scholar of the Mises Institute), G.P. Manish (Troy University), Gerard Casey (University College, Dublin), Brad Birzer (Hillsdale College) and, coming soon, economist Robert P. Murphy!

Just for reading this eBook, you can get a special discount at LibertyClassroom.com with coupon code BERNIE (all caps).

ABOUT TOM WOODS

Thomas E. Woods, Jr., 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 (read Ron Paul's foreword) 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), *33 Questions About American History You 're Not Supposed to Ask*, *How the Catholic Church Built Western Civilization*, *Sacred Then and Sacred Now: The Return of the Old Latin Mass*, and *The Church and the Market: A Catholic Defense of the Free Economy*. 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.

Woods 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*. He contributed the preface to *Choosing the Right College* and the foreword both to Ludwig von Mises' *Liberalism* and to Abel Upshur's *A Brief Enquiry into the True Nature and Character of Our Federal Government*. He is also the author of *Beyond Distributism*, part of the Acton Institute's Christian Social Thought Series.

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*, *Religion & Liberty*, *Journal of Libertarian Studies*, *Journal des Economistes et des Etudes Humaines*, *AD2000* (Australia),*Christian Order* (U.K.), and *Human Rights Review*.

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*. He was the recipient of the 2004 O.P. Alford III Prize for Libertarian Scholarship and of an Olive W. Garvey Fellowship from the Independent Institute in 2003. He has also been awarded two Humane Studies Fellowships and a Claude R. Lambe Fellowship from the Institute for Humane Studies at George Mason University and a Richard M. Weaver Fellowship from the Intercollegiate Studies Institute.

A contributor to six encyclopedias, Woods is co-editor of *Exploring American History: From Colonial Times to 1877*, an eleven-volume encyclopedia. He is also a contributing editor of *The American Conservative* magazine. His website is TomWoods.com.