



**The Interviews**

*2013*

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**THE TOM WOODS SHOW:  
THE INTERVIEWS 2013**

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# A Special Note from Tom Woods (Please Don't Skip This!)

I launched the Tom Woods Show as a Monday-through-Friday podcast toward the end of September 2013. Ever since I'd started filling in as a guest host on the [Peter Schiff Show](#) in 2011, people had been asking when I'd have my own show. I was flattered, but I was also pretty busy.

Fast forward to late 2013, and the idea seemed more and more attractive. The main reason was this: the work I was doing for [Ron Paul's homeschool curriculum](#) was so time-consuming that I could no longer do the writing and blogging I once did. If I had a daily program, though, I could still address the issues of the day, and still feel like I was contributing to the cause, even while my homeschool work was otherwise consuming me.

And incidentally, although I'll discuss Ron's homeschool program in the next chapter, let me give you an idea of what's involved. Each full-year course in this K-12 curriculum runs 36 weeks, with five lessons per week. That's 180 video lessons per course. Plus edits, finding readings, formulating, assignments, etc. Now multiply all this by three and a half courses, which is what I am creating, and you are at 630 videos on history, economics, and government. It is exhausting.

So the podcast was a way I could continue to help spread knowledge and information, while still pouring most of my energy into this unbelievable workload.

But as I look at this book, and look back on what was covered on the program in 2013 alone, when I was still getting my feet wet as a podcast host, I am quite pleased with what we accomplished. Thanks to my many great guests, we were able to cover an enormous variety of topics, such that this free e-book you now own is a veritable primer on liberty.

One of my favorite compliments has been that although many of my guests are not widely known within what we might call the liberty community, listeners love them. They are pleased to know that the intellectual heft of our movement is even greater than they thought.

The transcripts you'll find in this book have been edited for clarity. People rarely speak in paragraphs, and reading the unfiltered spoken word can be difficult and unpleasant. We've polished the text just enough to make it easily readable, but without eliminating the texture of the spoken word.

These transcripts are only of the interviews I did in 2013. They don't include my opening and closing banter. They also don't include the shows I did without a guest. It's just too much work to take 30 minutes of straight talking and edit it into readability. Those programs, listed with dates in the Appendix, you'll just have to listen to.

I'm giving this book away, though if you enjoy it and would like to chip in toward the expenses associated with putting it together—transcriptions, editing, e-book formatting, cover design, etc.—I accept donations gratefully at [TomWoodsRadio.com](http://TomWoodsRadio.com), via my [Supporting Listener program](#). But more important is that you enjoy the book.

We broadcast the program for the first time every weekday at noon Eastern at [TomWoodsRadio.com](http://TomWoodsRadio.com), and then it's available as a podcast on [iTunes](#), [Stitcher](#), or any other podcatcher.

Before we get to the program transcripts, I want to take just a moment to let you know what I'm up to these days. Will you take a moment to have a look at the next chapter? Then it's on to the awesomeness.

Thanks for reading, and thanks for listening.

Tom Woods  
April 2014

# Please Check Out What I Am Spending Hours and Hours and Hours Doing – and It's Not the Tom Woods Show

Even if you have no interest either in homeschooling or in adult enrichment, I implore you to read this as a favor to me.

Ron Paul has been wanting to create a homeschool program since at least 2008, when he first raised the idea with me. Now that he's out of Congress, it can be done.

Dr. Paul is convinced that a homeschool program is not just an effective way to carry on the ideas he has promoted all his life. It is indispensable. If the tradition of thought that Dr. Paul represents is not handed on and cultivated, it will wither away.

As parents, though, we're interested in more than just advancing ideas. We want our children to get the best education they can.

When students complete the program at [RonPaulHomeschool.com](http://RonPaulHomeschool.com), they will know an enormous amount about the freedom philosophy -- because, unlike the traditional classroom setting, we also present the other side of the story.

**How many times have you read something by Ron Paul or a Ron Paulian scholar about history, or economics, or government, that you didn't learn in school?** How many great thinkers have you discovered in adulthood who were never introduced to you as a student?

**Students in this program won't have the same problem.** They'll learn real history and economics (among many other subjects), and they'll learn it the right way, the first time through. The people, events and perspectives left out of the usual presentations of this material will actually be taught to them.

Put simply, they'll graduate knowing who Ludwig von Mises and Frederic Bastiat were, which is more than we can say for more than 99 percent of high school (and even college) graduates today.

In addition to getting an education in which the freedom perspective is systematically incorporated rather than ignored or presented in caricature, students will also:

- learn how to speak in public with confidence;
- become a good writer -- a skill few adults share;
- learn (with your permission) how to run a blog and a YouTube channel;
- learn how to start a home business.

Our students won't just have a lot of valuable knowledge, in other words. Our students will be effective communicators in speech and in print, will have a leg up on their peers in promoting themselves and their work online, and will have absorbed a healthy entrepreneurial spirit.

The program comes with a money-back guarantee. To [join the site](#) and its Q&A forums, it's \$250 *per family*, no matter how many children are in the family. After that, individual courses are \$50 per full-year course per child.

Each of those \$50 courses consists of 180 video lessons, plus reading and writing assignments. I am preparing four courses: three full-year courses, and one half-year course. My courses also include an audio file for each lesson so parents, too, can listen during their commutes to what their students are learning.

I'd like you to see the titles of the lessons. Let's start with my half-year course, Government 1B, for ninth graders (though none of my courses are taught at a level that would insult the intelligence of an adult learner who wants to learn as well). I'll leave out the subheadings that organize the various parts of the course; trust me, therefore, that there's an overall coherence to the order of the lessons.

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: American Case: Self-Government and the Tenth Amendment

Lesson 58: 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 Intervention

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

Lesson 86: The Sweeping Critique: LeFevre

Lesson 87: The Sweeping Critique: Rothbard

Lesson 88: Case Study: The Old West

Lesson 89: Economic Freedom of the World

Lesson 90: What Have We Learned?

Here's my tenth-grade Western Civilization I course, which again an adult can also enjoy:

Lesson 1: Introduction and Overview

Lesson 2: Hebrew History I

Lesson 3: Hebrew History II

Lesson 4: Hebrew History III

Lesson 5: Week 1 Review

Lesson 6: Hebrew Religion and the Hebrew Contribution

Lesson 7: Minoan Crete

Lesson 8: Mycenaean Greece

Lesson 9: Homer, *The Iliad*

Lesson 10: Week 2 Review

Lesson 11: Homer and Hesiod

Lesson 12: Classical Greece: Overview

Lesson 13: The Pre-Socratics, I

Lesson 14: The Pre-Socratics, II

Lesson 15: Week 3 Review

Lesson 16: Socrates

Lesson 17: Plato: Introduction and Overview

Lesson 18: Plato's Worldview

Lesson 19: Plato and *The Republic*

Lesson 20: Week 4 Review

Lesson 21: Aristotle: The Philosopher

Lesson 22: Aristotle's *Ethics*

Lesson 23: Aristotle's *Politics*

Lesson 24: Classical Greece: The Polis, Sparta

Lesson 25: Week 5 Review

Lesson 26: Classical Greece: The Polis, Athens

Lesson 27: The Persian Wars

Lesson 28: The Peloponnesian War

Lesson 29: Herodotus and Thucydides

Lesson 30: Week 6 Review

Lesson 31: Greek Drama, I

Lesson 32: Greek Drama, II

Lesson 33: Classical Greece: Art

Lesson 34: Greek Religion

Lesson 35: Week 7 Review

Lesson 36: Greece and Western Liberty

Lesson 37: Alexander the Great

Lesson 38: The Hellenistic World

Lesson 39: Hellenistic Thought and Achievement

Lesson 40: Week 8 Review

Lesson 41: Rome: Beginnings and Foundations

Lesson 42: The Struggle of the Orders

Lesson 43: Expansion of Rome

Lesson 44: Toward the Empire, I

Lesson 45: Week 9 Review

Lesson 46: Toward the Empire, II

Lesson 47: Toward the Empire, III

Lesson 48: The Augustan Settlement

Lesson 49: Latin Literature: The Golden Age

Lesson 50: Week 10 Review

Lesson 51: Latin Literature: The Silver Age

Lesson 52: Rome After Augustus

Lesson 53: Second-Century Rome

Lesson 54: Roman Art

Lesson 55: Week 11 Review

Lesson 56: Christianity: The Background

Lesson 57: The Birth of Christianity, I

Lesson 58: The Birth of Christianity, II

Lesson 59: Early Christian Texts I: The New Testament

Lesson 60: Week 12 Review

Lesson 61: The Spread of Christianity

Lesson 62: From the Underground Church to the Edict of Milan

Lesson 63: Early Christian Texts II: Didache, Shepherd of Hermas, Apostolic Fathers, Apologists

Lesson 64: The Development of Christianity I

Lesson 65: Week 13 Review

Lesson 66: The Development of Christianity II

Lesson 67: Monasticism, I

Lesson 68: Monasticism, II

Lesson 69: The Church and Classical Culture I

Lesson 70: Week 14 Review

Lesson 71: The Church and Classical Culture II

Lesson 72: Rome: Third-Century Crisis

Lesson 73: Diocletian and Constantine

Lesson 74: Rome and the Barbarians, I

Lesson 75: Week 15 Review

Lesson 76: Rome and the Barbarians, II

Lesson 77: Rome: Significance

Lesson 78: St. Augustine I

Lesson 79: St. Augustine II

Lesson 80: Week 16 Review

Lesson 81: The Church and the Barbarians

Lesson 82: Merovingians and Carolingians

Lesson 83: The Papal-Frankish Alliance

Lesson 84: Charlemagne

Lesson 85: Week 17 Review

Lesson 86: The Carolingian Renaissance

Lesson 87: Christianity in England and Ireland

Lesson 88: Christianity in Germany

Lesson 89: Midterm Review

Lesson 90: Week 18 Review

Lesson 91: Islam

Lesson 92: Byzantium I

Lesson 93: Byzantium II

Lesson 94: After Charlemagne

Lesson 95: Week 19 Review

Lesson 96: Ninth- and Tenth-Century Invasions

Lesson 97: Feudalism and Manorialism

Lesson 98: Medieval Art

Lesson 99: England: William the Conqueror

Lesson 100: Week 20 Review

Lesson 101: Gregorian Reform, I

Lesson 102: Gregorian Reform, II

Lesson 103: The Church-State Struggle and Western Liberty

Lesson 104: Christendom

Lesson 105: Week 21 Review

Lesson 106: The Great Schism

Lesson 107: France: Capetians to Louis IX

Lesson 108: The Medieval Church: Sacraments and Liturgy

Lesson 109: The Medieval Church: Popular Piety

Lesson 110: Week 22 Review

Lesson 111: Crusades: Background

Lesson 112: The First Crusade

Lesson 113: Later Crusades

Lesson 114: The End of the Crusades

Lesson 115: Week 23 Review

Lesson 116: The Albigensian Crusade

Lesson 117: The Mendicant Orders

Lesson 118: England: Magna Carta

Lesson 119: France: Philip the Fair

Lesson 120: Week 24 Review

Lesson 121: The Renaissance of the Twelfth Century

Lesson 122: The Rise of Universities

Lesson 123: Scholastic Philosophy

Lesson 124: Thomas Aquinas: Biography and Overview

Lesson 125: Week 25 Review

Lesson 126: Thomas Aquinas and the Existence of God

Lesson 127: Thomas Aquinas and the Divine Attributes

Lesson 128: Just War Theory

Lesson 129: Later Scholasticism

Lesson 130: Week 26 Review

Lesson 131: The Cathedrals

Lesson 132: The Rise of Towns

Lesson 133: Economy in the High Middle Ages

Lesson 134: The Medieval Contribution to Western Prosperity

Lesson 135: Week 27 Review

Lesson 136: The Holy Roman Empire I

Lesson 137: The Holy Roman Empire II

Lesson 138: Medieval Literature

Lesson 139 Dante and the *Divine Comedy*

Lesson 140: Week 28 Review

Lesson 141: Philip IV vs. Boniface VIII

Lesson 142: Marsilius of Padua and the Attack on Papal Power

Lesson 143: The Avignon Papacy

Lesson 144: Fourteenth-Century Crisis

Lesson 145: Week 29 Review

Lesson 146: England in the Fourteenth Century

Lesson 147: France in the Fourteenth Century

Lesson 148: Hundred Years War

Lesson 149: The Great Western Schism

Lesson 150: Week 30 Review

Lesson 151: The Fall of Byzantium

Lesson 152: The Renaissance: Origins and Ideas

Lesson 153: Petrarch and the Renaissance

Lesson 154: Renaissance Humanism I

Lesson 155: Week 31 Review

Lesson 156: Renaissance Humanism II

Lesson 157: Machiavelli

Lesson 158: Renaissance Art I

Lesson 159: Renaissance Art II

Lesson 160: Week 32 Review

Lesson 161: Renaissance Art III

Lesson 162: Renaissance Art IV

Lesson 163: Northern Renaissance

Lesson 164: The Renaissance Popes

Lesson 165: Week 33 Review

Lesson 166: Renaissance Italy: The Five Major Cities

Lesson 167: Renaissance Italy: Political Developments

Lesson 168: Fifteenth-Century England

Lesson 169: Fifteenth-Century France

Lesson 170: Week 34 Review

Lesson 171: The Holy Roman Empire in the Fifteenth Century

Lesson 172: The Church on the Eve of Reform

Lesson 173: Centralization in Spain

Lesson 174: The Age of Discovery, I

Lesson 175: Week 35 Review

Lesson 176: The Age of Discovery, II

Lesson 177: The Age of Discovery, III

Lesson 178: Concluding Remarks

Lesson 179: Preview of Western Civilization II

Lesson 180: Week 36 Review

Here's my course on American Constitutionalism, available mid-2014 and pitched to eleventh graders:

Lesson 1: Introduction

Lesson 2: The Roots of American Constitutionalism I

Lesson 3: The Roots of American Constitutionalism II

Lesson 4: The Roots of American Constitutionalism III

Lesson 5: Week 1 Review

Lesson 6: The Massachusetts Body of Liberties

Lesson 7: The Colonial Charters

Lesson 8: Colonial Plans of Union

Lesson 9: The Dominion of New England

Lesson 10: Week 2 Review

Lesson 11: The British Constitution

Lesson 12: The American Revolution as a Constitutional Struggle I

Lesson 13: The American Revolution as a Constitutional Struggle II

Lesson 14: The American Revolution as a Constitutional Struggle III

Lesson 15: Week 3 Review

Lesson 16: The Declaration of Independence I

Lesson 17: The Declaration of Independence II

Lesson 18: State Constitutions I

Lesson 19: State Constitutions II

Lesson 20: Week 4 Review

Lesson 21: The Articles of Confederation I

Lesson 22: The Articles of Confederation II



Lesson 23: To the Philadelphia Convention

Lesson 24: Shays' Rebellion

Lesson 25: Week 5 Review

Lesson 26: The Philadelphia Convention I

Lesson 27: The Philadelphia Convention II

Lesson 28: The Philadelphia Convention III

Lesson 29: Separation of Powers and Checks and Balances

Lesson 30: Week 6 Review

Lesson 31: The Constitution: Article I

Lesson 32: The Constitution: Article I (continued)

Lesson 33: The Constitution: Article II

Lesson 34: The Constitution: Articles III and IV

Lesson 35: Week 7 Review

Lesson 36: The Constitution: Articles V-VII

Lesson 37: The Ancient World and the American Framers

Lesson 38: Did the American Indians Influence the Constitution?

Lesson 39: The Antifederalist Critique I

Lesson 40: Week 8 Review

Lesson 41: The Antifederalist Critique II

Lesson 42: Biography: Samuel Adams

Lesson 43: Ratification I

Lesson 44: Ratification II

Lesson 45: Week 9 Review

Lesson 46: *The Federalist*

Lesson 47: Federalist #10

Lesson 48: Federalism

Lesson 49: Biography: Alexander Hamilton

Lesson 50: Week 10 Review

Lesson 51: Biography: James Madison

Lesson 52: The General Welfare Clause

Lesson 53: The Commerce Clause

Lesson 54: The "Necessary and Proper" Clause

Lesson 55: Week 11 Review

Lesson 56: The Supremacy Clause

Lesson 57: Is the Constitution a 'Living, Breathing' Document?

Lesson 58: The Bill of Rights: Overview

Lesson 59: The First Amendment I

Lesson 60: Week 12 Review

Lesson 61: The First Amendment II

Lesson 62: The Second Amendment

Lesson 63: The Second and Third Amendments

Lesson 64: The Fourth Amendment I

Lesson 65: Week 13 Review

Lesson 66: The Fourth Amendment II

Lesson 67: The Fifth Amendment I

Lesson 68: The Fifth Amendment II

Lesson 69: The Sixth Amendment

Lesson 70: Week 14 Review

Lesson 71: The Seventh Amendment

Lesson 72: The Eighth Amendment

Lesson 73: The Ninth Amendment

Lesson 74: The Tenth Amendment

Lesson 75: Week 15 Review

Lesson 76: The Washington Administration

Lesson 77: Jefferson, Hamilton, and the Constitution

Lesson 78: Two Theories of the American Union

Lesson 79: Biography: Patrick Henry

Lesson 80: Week 16 Review

Lesson 81: Biography: John Taylor of Caroline

Lesson 82: The Virginia Resolutions of 1798

Lesson 83: The Kentucky Resolutions of 1798 and 1799

Lesson 84: Response to Virginia and Kentucky

Lesson 85: Week 17 Review

Lesson 86: Nullification and the Constitution

Lesson 87: The Jeffersonian Triumph

Lesson 88: St. George Tucker: First Constitutional Commentary

Lesson 89: Jefferson and the Judiciary

Lesson 90: Week 18 Review

Lesson 91: Jefferson and the Constitution

Lesson 92: Midterm Review

Lesson 93: *Fletcher vs. Peck*

Lesson 94: John Marshall

Lesson 95: Week 19 Review

Lesson 96: *Marbury vs. Madison*

Lesson 97: Judicial Review I

Lesson 98: Judicial Review II

Lesson 99: Concurrent Review

Lesson 100: Week 20 Review

Lesson 101: The Hartford Convention

Lesson 102: *McCulloch vs. Maryland*

Lesson 103: The Missouri Crisis

Lesson 104: Internal Improvements

Lesson 105: Week 21 Review

Lesson 106: The Jackson Administration

Lesson 107: Two Treatises on the Constitution: Abel Upshur vs. Joseph Story, Part I

Lesson 108: Upshur vs. Story, Part II

Lesson 109: *Barron vs. Baltimore*

Lesson 110: Week 22 Review

Lesson 111: The Abolitionists, Part I: The Constitution as a Pro-Slavery Document

Lesson 112: The Abolitionists, Part II: The Constitution as an Anti-Slavery Document

Lesson 113: *Dred Scott vs. Sandford*

Lesson 114: The Antislavery Cause and States' Rights in Wisconsin

Lesson 115: Week 23 Review

Lesson 116: Secession I

Lesson 117: Secession II

Lesson 118: The Confederate Constitution

Lesson 119: The Civil War and the Constitution

Lesson 120: Week 24 Review

Lesson 121: Reconstruction I

Lesson 122: Reconstruction II

Lesson 123: The Reconstruction Amendments

Lesson 124: The Fourteenth Amendment

Lesson 125: Week 25 Review

Lesson 126: The Fourteenth Amendment and the Ratification Process

Lesson 127: The Fourteenth Amendment and the Incorporation Doctrine

Lesson 128: The Slaughterhouse Cases

Lesson 129: Antitrust and the Courts

Lesson 130: Week 26 Review

Lesson 131: Jury Nullification

Lesson 132: The Sixteenth Amendment

Lesson 133: The Seventeenth Amendment

Lesson 134: The Eighteenth Amendment (and the 21st)

Lesson 135: Week 27 Review

Lesson 136: Substantive Due Process

Lesson 137: Progressivism and the Constitution I

Lesson 138: Progressivism and the Constitution II

Lesson 139: The Power to Draft

Lesson 140: Week 28 Review

Lesson 141: Free Speech

Lesson 142: Theodore Roosevelt and the Constitution

Lesson 143: Judicial Resistance to the New Deal I

Lesson 144: Judicial Resistance to the New Deal II

Lesson 145: Week 29 Review

Lesson 146: The New Deal Court I

Lesson 147: The New Deal Court II

Lesson 148: Bruce Ackerman and “Constitutional Moments”

Lesson 149: The Japanese Internment

Lesson 150: Week 30 Review

Lesson 151: *Brown v. Board of Education*

Lesson 152: Civil Rights I

Lesson 153: Civil Rights II

Lesson 154: Church, State, and the Establishment Clause

Lesson 155: Week 31 Review

Lesson 156: The Presidency and Foreign Policy

Lesson 157: War Powers and the Constitution I: Original Understanding

Lesson 158: War Powers and the Constitution II: History

Lesson 159: War Powers and the Constitution III: Truman Seizes the Steel Mills

Lesson 160: Week 32 Review

Lesson 161: The Constitution and Money I

Lesson 162: The Constitution and Money II

Lesson 163: The Warren Court I

Lesson 164: The Warren Court II

Lesson 165: Week 33 Review

Lesson 166: Abortion and the Court: *Roe vs. Wade*

Lesson 167: Medical Marijuana

Lesson 168: Presidential Signing Statements

Lesson 169: Flashes of Federalism

Lesson 170: Week 34 Review

Lesson 171: War on Terror I

Lesson 172: War on Terror II

Lesson 173: War on Terror III

Lesson 174: War on Terror IV

Lesson 175: Week 35 Review

Lesson 176: The Obamacare Decision

Lesson 177: Proposals for Reform

Lesson 178: Lysander Spooner and the Authority of the Constitution

Lesson 179: Conclusion

Lesson 180: Week 36 Review

The lesson titles for my Western Civilization II course, also for eleventh graders and available mid-2014, are still in flux.

Will you be able to order my courses a la carte, without joining the Ron Paul Curriculum site? Yes. I'll have two courses available a la carte by mid-2014, and the other two by early 2015. My contractual deal with them says the courses have to be offered more cheaply on their site than directly from me, but at least you won't have to pay the annual \$250 fee to join their site if you get my courses from me. Stay tuned to the Tom Woods Show, my [Facebook](#) page, my [Twitter](#) account, and/or [my website](#) to stay updated on when you'll be able to get these courses from me. As of this minute you can already get Western Civilization I and Government 1B via [RonPaulHomeschool.com](#), and as of mid-2014 you'll be able to get my other two courses there as well.

I'm doing my very best to produce a quality product. I hope you'll check it out: [RonPaulHomeschool.com](#).

Meanwhile, in 2012 I developed a separate project, [LibertyClassroom.com](#), because I was frustrated by the kind of history and economics people were generally learning in high school and college. 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.

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.

Right now we have nine 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 Prof. Jason Jewell), Introduction to Logic, History of Political Thought, and John Maynard Keynes: His System and Its Fallacies.

It's a steal, and even more so with coupon code SHOW, in all caps. [Please check it out!](#)

# The Heroic Tenth Amendment Center

## Guest: Michael Boldin

### September 23

*Michael Boldin is the founder and executive director of the Tenth Amendment Center (TenthAmendmentCenter.com).*

**WOODS:** You started this thing during the second term of George W. Bush, when nobody cared about the Tenth Amendment, right? George W. Bush was the great conservative leader everybody had been waiting for. [TW note: That was sarcasm.] Why did you do it?

**BOLDIN:** I started out as an antiwar activist that worked with the hard Left back in the day, when the Iraq war started in 2003. I was out marching with the communists, and I started recognizing over time that no matter how much protesting you do, these people don't listen. Then on top of it, the Left that I was part of personally, they weren't really antiwar. They were anti-Bush and pro- other stuff. I learned over time. I read a lot of Harry Browne and listened to his radio show back over a number of years. I slowly developed this understanding, which I'm still developing over time, that virtually everything the government does they either shouldn't be doing, or even when they should do it, they do a really awful job.

I think this whole Tenth Amendment thing was a pretty good line in the sand. I was going to just start blogging about it. I registered the domain back in mid-2006 during the great conservative—as you mentioned—George Bush's reign. I thought that if I could reach a few people with this message, that what they're doing they're not supposed to be doing, I would have done something good. I was still working a part-time job but getting up at 4:00 AM to manage the website, then go to work, and come back home and run it all at night. Eventually, it just kept growing and growing. I think people realized that this is a pretty sound message. Today, you get to the point where people like the *New York Times*, Mark Levin, *Chicago Tribune*, *LA Times*, the Cato Institute, Huffington Post, ThinkProgress, Heritage, all of these establishment organizations, individual media types—they all absolutely hate this nullification idea. That tells me that we're doing a pretty good job.

**WOODS:** It's amazing that basically the big guns are all out at you. They used to be at me, because I wrote [the book on nullification](#). But then people forget about books. You've got this website that's updated all the time. You're having events all the time. You're traveling everywhere. So you're really the target now. You've taken some of the pressure off me, to be honest. You recently just passed 100,000—now

you're at 106,000 Facebook likes. How do you go from a guy in his apartment to a guy who is still in an apartment?

**BOLDIN:** I'm still in that apartment.

**WOODS:** He's still in that apartment. And with state chapters all over the place who are doing things you don't even know about, and you're constantly getting calls from the *New York Times* for comment. Media people say, well, we're talking to Michael Boldin of the Tenth Amendment Center, and they get this sense that the Tenth Amendment Center is this huge building with a Greek temple façade. How the heck does somebody do this?

**BOLDIN:** It's about dedication, believing in something. I think the fact that I started this out with \$30 and an \$11-an-hour part-time job means that if you believe in something and stick to it, just like the individuals who started the recall petition—one of them recently commented on our website, "We're all learning that one person who really believes in something can actually accomplish a great deal." Now not everybody's going to have an idea and turn it into a movement that's approved by 52 percent of mainstream voters as nullification is today. But each of us in our own sphere can certainly accomplish a great deal provided we say, "You know what? Maybe I'll turn off this piece of entertainment." Keep a little bit, because anybody who watches my Facebook page knows that I want to live free by trying to enjoy what the world has to offer.

Balance that with putting a lot of energy towards resistance to the state. I mean not necessarily the states, but government power. If you have a really good balance, you can keep yourself sane and work really hard. One person can accomplish much. I've created a movement in many ways by working hard and having great people around me working on the same thing, and these people who have tens of millions of dollars in their Washington D.C. Beltway organizations, they buy buildings. That's why they're attacking us even though we have nothing financially compared to them, because we work together for truth. I think that shows how powerful these things are.

**WOODS:** It is true. I am a Facebook friend of yours, so I do see your photos and all the fun things you do. But I draw the line at the kale juice. I mean, come on. You've got to enjoy life.

**BOLDIN:** I don't know if you saw this morning, but I had to do some training, being the first guest on the show. I went for a 35-minute jog, came back, had some coconut water. We're doing this interview. Then I'll load up on kale and cucumber.

**WOODS:** Let's talk about Mark Levin, though, because you made reference to him a minute ago. Every time you talk about Mark Levin people will say one of two things. (1) "Leave Mark Levin alone. He's a good patriot. He's on your side." Yeah, a lot of people on my side are calling me names and smearing me in front of millions of people. Sure, he's my best friend. (2) "Who cares about Mark Levin? Talk about something substantive." But this is substantive. A guy with that size audience who in effect is attacking all people who support nullification as kooks—that's newsworthy. You have to talk about that.



Let's actually focus on—apparently you read his book, *The Liberty Amendments*—

**BOLDIN:** No.

**WOODS:** Oh, you haven't?

**BOLDIN:** I haven't read it.

**WOODS:** Are you familiar with it?

**BOLDIN:** Yeah, I know what he's doing. Yeah, of course.

**WOODS:** One of his proposals, from the way I understand it, is there'd be a constitutional amendment that would allow three-quarters of the states to invalidate a federal law. The [Kevin] Gutzman version is two-thirds. I would say one state, but of course, maybe not everybody agrees with me. Do you think there's any merit whatever in Levin's approach? Leaving aside what a jerk he is and how he acts. He's not a gentleman, and he acts like a three-year-old. Everybody with a brain knows that about the guy. The rest of his ideas, do you think there there's any merit to them? Are they supplemental to nullification? Are they a distraction? Is there any likelihood that they're going to be implemented?

**BOLDIN:** First, back up. I think it's interesting. Southern Poverty Law Center, MSNBC, and CATO call nullification a crazy right-wing movement. I'm listed as one of the 30 Leaders of the Radical Right by the Southern Poverty Law Center. Then you have people like Levin, who gets on the air last week, he says, "The nullification movement is a radical left-wing movement being pushed by kooks." It's fascinating how they try to polarize these things. Nullification, as you know, Tom, is used by both the Left and the Right. When you're nullifying federal drug laws on marijuana, like they've done here in California since 1996—and more recently in Colorado and Washington State—that's generally supported by those on the Left, along with libertarians. When you're trying to nullify federal gun laws, like laws passed in Alaska and Kansas, you're generally coming from the political Right and libertarians.

What's fascinating is that libertarians can actually cross the spectrum and work on this on all sides, but the masses are either Left or Right. It really can't be pinned down to one side or the other. I think that's part of why these people freak out, because they really can't put us into a box. When they attack what I do as being leftie, and I'm talking about being antiwar and opposing the drug war, it makes their heads explode and vice versa. Article Five is certainly a legitimate process. When people like Kevin Gutzman and Mike Church are promoting it, I think there's something very legitimate to it. Obviously, it's part of the Constitution.

That in itself—I have to make clear running a constitutional organization that the word "constitutional" doesn't mean the word "good." These are not interchangeable. So it is constitutional for Congress to declare war, for example, on Syria, even though they aren't necessarily considering that. They're considering a transfer of war-declaring power, delegating powers to the executive that wrote the proposal. They

can do that [i.e., they can declare war on Syria], but just because it's constitutional doesn't mean (a) it's a good idea, and (b) you should go along with it. James Madison, in Federalist #46, was very specific about saying that in the states you should refuse to cooperate with officers of the Union. Resist federal actions whether they're—what he said was, “unwarrantable measures” which are unconstitutional or warrantable but just unpopular. They can do something that's “constitutional” but just bad policy. This is still a very important natural right of resistance to these people.

As for Article Five, obviously, it's part of the Constitution. It's hard for me to say that proposals that would limit federal power are bad, so a proposal to say that, okay, there's going to be another check on federal power via two-thirds of the states as Kevin says or three-quarters—I don't think that's necessarily a bad proposal. Whether I agree that we can find enough states to go along with something like this rather than repealing the Second Amendment or something like that—I don't know if it's going to play out like that. Who knows how anything's going to play out.

I follow Anthony Gregory's great advice on this. I don't necessarily want to pooh-pooh anyone's idea who wants to resist government power. I want to encourage them and maybe lead by example that if I believe my way is a better way, I need to prove it to them. That's what I'm working hard to do every single day, to prove that resistance, nullification, is really the best path, because I believe that you need to be able to be free whether three-quarters of the states agree with you or not.

**WOODS:** I think that's the right way to think about it. Let me make sure everybody knows what we're talking about. You and I live in a world in which we throw around lingo like “Article Five.” I just want to make clear to everybody: Article Five refers to the process of amending the Constitution, and specifically we're talking about the calling of a constitutional convention [or an “amendments convention,” as supporters refer to it]. That's what's being proposed by Mark Levin.

I deal a lot with libertarians, being one myself, who say nullification—maybe it's okay as far as it goes, but you're kind of implying that the states are perfectly okay. That we need to have the states resist the federal government. But I agree: the states are all screwed up too, and I don't particularly like the states. The states can get away with a lot of rotten things, too, so it's not always the federal government that's at fault. So by engaging in nullification are you implicitly endorsing or supporting or cheering on the states?

**BOLDIN:** I cheer on anybody resisting federal power, so when Vladimir Putin, who was a KGB pig, evil criminal, is standing up against Washington, D.C.—he's the enemy of my enemy is my friend. And obviously the state of California is my enemy. Sometimes the state of California—for example, is working to pass two bills that are sitting on Governor Moonbeam's desk. There's a bill to reject Common Core federal standards over education and another one to start the process of resisting NDAA indefinite detention. Yeah, with a lot of pressure, you can get some really bad guys who care only about their political standing to do decent things. That does not endorse the power of the State of California or any other state.

In fact, nullification, if we're using the Tenth Amendment Center definition, which is any act or set of actions which has its end result a particular law being rendered null and void or simply unenforceable,

you can go all the way down to individuals. When I spoke at PorcFest just this year, I spoke about how nullification can really just be an act of individual defiance. When enough people do this, and they can't get their laws moving forward, the end result is the same, and this is all good stuff. Some people only work with states. Some people will only work with communities. Some people will do their own individual action, and they're all pieces to a big, important puzzle. The number-one most evil government that I'm aware of on the face of the earth these days—North Korea's pretty bad—but it sure seems like Washington, D.C. is violating more people's rights around the world than anyone, and let's try to knock them off their high horse. I think nullification is the path to do that.

**WOODS:** We noted that a lot of the bad guys get in touch with you—in the form of attack, smears, and name calling and so on and so forth, but what about the good guys? Are state legislators actively seeking you guys out for assistance or seminars or model legislation, or how does that work?

**BOLDIN:** We have tons of model legislation, and sometimes we do have state legislators. But it's mostly people from the grassroots, from across the political spectrum. I've personally met a lot of marijuana dispensary owners recently, and it's fascinating to learn how this whole process works and see how the federal government really coerces states to participate in oppressing people. So, for example, when the DEA raids a dispensary here in southern California, it's generally one or two federal agents with 10 or 15 local people. The local people come in, they steal the money from the register. The dispensary opens in six to 24 hours, and there you go again. It's Al Capone.

One of the great ways to reduce federal power is to start pushing back and saying, we're not going to comply with them, so, yeah, we have good guys that reach out to us, people that want to create businesses that defy these laws. We have legislators that reach out to us, but it's mostly the grassroots and the pressure on politicians, because there aren't too many decent people who are politicians. So it's really about creating pressure on those in office and those that might be sitting on the fence and pushing them to take a good stance. Not in D.C., though, because those people never do anything right.

**WOODS:** Michael, we have only a few minutes left. I want to ask you what your customary answer is when people say that the states are never going to have the political will to engage in nullification to any extent because they're all on the federal dole. Right? They're all getting federal money. They don't want to jeopardize that. How do you answer that objection?

**BOLDIN:** One word—weed—because there's now 21 states that have been pushed and coerced and pressured into following federal so-called laws prohibiting marijuana, but there's 21 states that are refusing to comply with it. Just in the last two weeks, Eric Holder, that criminal in the DOJ, had to announce that they're having to back off. It's not because they somehow love states' rights over marijuana. That's an absolute lie that some people on the far Right are actually putting out there. The Obama administration has tried to enforce federal laws prohibiting marijuana, consumption sales, etc., more than any president in history, but when 21 states and people all across the country stand up and say no, it doesn't matter how much they try to enforce. They're going to get pushed back in the bottle.

**WOODS:** How do people find out more about the Tenth Amendment Center?

**BOLDIN:** [TenthAmendmentCenter.com](http://TenthAmendmentCenter.com). We update every single day with all kinds of juicy stuff. We have a newsletter, general information, and our Facebook page over at [facebook.com/TenthAmendment-Center](https://facebook.com/TenthAmendmentCenter). Just do a Google search. We're all over the place.

**Get a free subscription to the Tom Woods Show at [TomWoodsRadio.com](http://TomWoodsRadio.com).**

# Ben Swann and Independent Journalism

## Guest: Ben Swann

### September 24

*Ben Swann (BenSwann.com) has won two Emmy Awards and two Edmund R. Murrow Awards for his work in broadcast journalism. He currently runs the Truth in Media Project.*

**WOODS:** It's interesting that even though we travel in exactly the same circles, and have exactly the same audience, we've never met or spoken before, so I'm glad to have you here. I think people are more interested in you and your career than they are in asking about the specifics of the reports you've done. I want to balance both. First, I want to let you tell people about your Truth in Media Project.

**SWANN:** The Truth in Media Project. The idea behind it is we are really working to cut through that left-right paradigm in media. Clearly, we believe there is a false Left-Right paradigm in politics that people have bought into. It has now translated its way over the past couple decades, specifically about 15 years, into media. There's the false Left-Right paradigm in media, and unfortunately when it gets into media, creeps into media, there is a lack of truth being reported, because everything is being reported through this lens, through this filter that's happening either through a Left paradigm or a Right paradigm. We're working to break that down, and so far so good.

We're enjoying the challenge of it. It is a challenge, because people are so used to this. Tom, I absolutely believe that most viewers or listeners or readers, when they go to media, they go there in order to have their worldview validated, not to learn. When you go to media to be validated, you either run to those on the Left or on the Right who you think best represent your worldview, so you can hear them echo back to you what you already believe in the first place. Breaking through that is quite the challenge.

**WOODS:** You seemed to come completely out of nowhere to most of us. All of a sudden, holy cow, we've got this guy on an actual TV station who's saying things we would want the country to hear. Had you been doing this before the Ron Paul campaign, but we in the rest of the country didn't know about it? Or did Ron Paul change your way of thinking? How did you get started in all this?

**SWANN:** What's kind of interesting is I had moved to Cincinnati. As you mentioned, I worked on the border prior to coming to Cincinnati for most of my career and covered the drug war, but after moving to Cincinnati we started this thing called Reality Check. It was only in existence for about ten months

before the campaign. We needed that time to build it up, and it was growing steadily. Then when we hit the campaign, started talking about issues, some of the things that most people would consider insane to talk about in the local newscast—like delegates and how many delegates candidates have—it was happening to these different caucuses around the country, and when you start reporting on those things, obviously we grew tremendously during that time, because we were the only ones. Not because we were the best at it, but because we were the only ones at it. When no one else was talking about it, it's pretty easy to have a pretty strong market share.

So we were able to do that and then beyond that just continue to grow the brand of talking about issues that we felt were being ignored. It was through that process that I began to really understand the Left-Right paradigm. I didn't understand it myself before that. I was trying to talk about truth and realized how viewers saw things and other media saw things. It was really the tainted worldview. Breaking through that—it's kind of been a journey for me.

**WOODS:** Who have been your important influences in that journey?

**SWANN:** I think people such as yourself. You were the first person I ever heard talk about this thing called nullification. I said, "What are they talking about?" And I started to understand that process. By the way, this past weekend we were doing some events in Idaho, and Michael Boldin was out there as well. He spoke extremely well about this concept of nullification and what the process looks like. I thought he did a marvelous job of explaining it.

**WOODS:** He's the best. Yeah, he's great.

**SWANN:** He's fantastic, and so people like you, people like Dr. Paul—obviously he's had a huge influence. For me it's really been kind of a process of—I'm not a libertarian. I'm not a capital-L Libertarian. I'm a liberty-minded constitutionalist; that's what I refer to myself as, because I don't actually belong to the party. But I would say that there have been a lot of libertarian thinkers who have dramatically shifted my worldview, and not just shifting it. I'm a recovering neocon, so I tell people that. Full disclosure here.

**WOODS:** You and me both.

**SWANN:** When you step through that door, as you know, it's like the whole world opens up, and you see things very differently. It's this process of believing in liberty and having to break through, again, those paradigms that really challenge your world-view.

**WOODS:** It's funny that you mention that you consider yourself a liberty-minded constitutionalist, because I was asking people on my Facebook page—[facebook.com/ThomasEWoods](https://www.facebook.com/ThomasEWoods)—what should I ask Ben Swann? Somebody said, "Where does he fall on the libertarian spectrum? Is he an anarchist? Is he a minarchist?" Some libertarians want to rip each other's hearts out over questions like that. Let me ask you: why do you think other journalists get things wrong? Is it because they have an ideological bias? Is it because they have a material interest? What do you think is the problem?

**SWANN:** I think there's a couple of things at play. One of the forces that I think a lot of journalists run into is the problem of groupthink. So you have this mentality built into newsrooms across the country of what is acceptable and what is not, and the shortcuts-of-the-brain mentality, where rather than really digging into stories and looking at why things happen the way they do, they merely talk about what happened.

I explain it to people this way. The reason I think Ron Paul struggled so much during the debates was, number one, because no one would ask him a question. Number two, when they did finally ask him something, it took him a long time to answer. One of the reasons it would take him a long time to answer, if you go back and look at how he answers debate questions, it's because almost every time he was asked a question, he had to correct the question in order to give a correct answer. It was because the question was coming from a flawed understanding. So he would try to explain, "Well, the reason that we're in the position that we're in is because. ..." And he'd have to correct the question in order to give the answer.

I think that's what happens in media a lot—we're asking the wrong questions. It's not because the journalists or writers or producers or anchors or whoever are doing a poor job of researching. It's because they're not researching at all. We have these almost archetypes that are built into the business that we talk about, and we talk about them in such a way that they're almost a given, a fact. Many times they're not. They're this skewed worldview that becomes groupthink. I hope that makes sense as I say it. It might be a little bit confusing, but I think that's one of the big problems we have in media right now, is that we're not basing questions or reporting on fact. We're basing it on an assumption or an archetype.

**WOODS:** I agree with that. And it's not just the media. The average person, if he has an ideology, is simply looking to have that ideology confirmed by whatever source he's consulting. Maybe all of us are guilty of that to one degree or another, but it definitely gets in the way of finding the truth. Speaking of finding the truth, this is quite astonishing to me: you apparently landed an interview with Barack Obama. It must have been after he had become president, since you asked him about the constitutionality of his kill list. Is this true, and if so, how did you land that?

**SWANN:** It is true. It was actually during the 2012 campaign. Obviously, Ohio was a huge swing state, so all of the candidates in the campaign had come through regularly. Every single week they're campaigning in the state of Ohio. It almost becomes a joke around the state; it feels like they're running for president of Ohio, because they're in so many cities. The station that I worked for at the time, FOX 19, put in their request to interview the president. The way the campaign is set up, they were actually pretty smart about this. If he came to Cincinnati, no Cincinnati television station could interview him, but they would offer interviews to reporters in other cities. The reason for that is because they know that if a sitting president comes to town, every station in town is going to talk about him. So in order to maximize exposure across the state, you allow stations from other markets to come in and interview him one on one. And now you get the most bang for your buck when he comes to the area.

**WOODS:** Got it.



**SWANN:** That's how it works. What we did was we put in our request, and it turned out he was, over Labor Day weekend, going into Toledo, Ohio. They called us up and said, you guys are on the list. You guys have moved up. By the way, I learned later on that the reason we got moved up and got on the list was that the week before, I had interviewed Governor Romney and Congressman Paul Ryan together, and went pretty hard on them, especially on the issue of the delegates from Maine having their credentials stripped from them.

Some of the staff people in Ohio saw that interview, and they were excited about it. They thought, "Well, hey, that's great. He works for a FOX station, and he was hard on those guys, so he must like us."

**WOODS:** Right. Awesome, awesome.

**SWANN:** They moved us up and said come on down. I went up there to Toledo and interviewed the president. Got five minutes, which turned into seven and a half, but it was some pretty tough questions. Not for the sake, by the way, Tom, to shock people, or trying to get these gotcha interviews, as Sarah Palin calls them. For the sake of reporting these important questions that I thought the American public—that nobody else was asking. So I got a shot at asking them.

**WOODS:** I want to go back to your time at FOX 19, and I know that you're out on your own now. That's very exciting, and we'll get back to that. It was an incredibly gutsy move, it seems to me, for you to be in that more or less comfortable position and then strike out on your own.

I have a two-part question for you. First of all, was the attention that you were getting, particularly from the Ron Paul people, viewed as a good thing or a bad thing by the executives at FOX 19? And secondly, did you feel like you weren't being given the scope that you wanted? What was the decision-making behind your leaving? But first I want to know, did they view the attention you were getting as a plus or a minus?

**SWANN:** I think in the beginning it was a huge plus, because when I went to work there, it was nearly a last-place station. We were kind of battling for third or fourth place, depending on the ratings book. By the time I left, we were number one across the board in primetime demos. We grew pretty rapidly. In the beginning it was very positive, and then over time I think it became less positive, because there was a fear of those people. When I say fear, I think a lot of executives are concerned about anything seen as controversial, right? What they would love to have in all media circles is, 100 percent of the people who watch you are happy all the time with everything you say and they're truly fans of what you're doing.

The risk you run, though, when you really start to talk about an intelligent subject—and when I say intelligent, I mean not just car crashes and house fires. Suddenly, you went by criticism. Many of the people watching us loved what we were doing, but they wouldn't always agree. A lot of times people would get angry and feel like when you break down that Left-Right paradigm—"One day I like what you're saying about gun control, the next day I hate what you're saying about due process rights for terror suspects." So what you find is there's a lot of controversy, but at the end of the day, people want to feel something.



One of the places we struggled was that the station didn't want any criticism over anything. So I think they struggled with that. I also think they struggled with the fact that other media were more critical of what we were doing than anything. I had a lot of stories written about me in publications around the country, in trade journals, where they would essentially slam what I was doing and the questions I would ask were the things we were talking about. The station hated that. That was a huge concern for them, because are we doing the wrong thing? Maybe we're just kind of kowtowing to the Ron Paul crowd or the libertarian crowd. I think there was a lot of angst for them. They wanted to get away from that angst, and that was fine.

One of those things they wanted also was to really move to just talking about hyper-local subjects. Let's talk about city council meetings. Let's talk about county commission meetings. Let's talk about local bridges and roads. We talked about some of those things, but at the end of the day, when you talk about a presidential kill list, that affects every single person living in Cincinnati. The deal is, viewers knew that, because obviously we grew like crazy. I'm not sure management quite understood.

**WOODS:** I can't get over the career you've had up to now. The fact, first of all, that you're able to build up a following of the kind that you have now, such that you thought it was plausible to strike out on your own, is something that very, very few people in your position can say. Yet, at the same time, it must frankly be a kind of a scary thing to be out there on your own. What are the pluses and minuses of the whole thing?

**SWANN:** Anytime you step out on your own, there's risk involved. You're trying to create something new, and in addition to that, figuring out the platform for it. We were very fortunate that we've had a lot of support so far. I think we've turned out some really good pieces. What we're doing is we're producing these five-to-ten-minute-long videos that we're releasing via YouTube and our website. I think we have five more to go for this first set, and then we'll have a full season. We're going to try to place it on Netflix.

We really want to do two things. We obviously want to build a strong brand, but more importantly, we want to influence people. We want to make people think about issues in a way they hadn't thought about them before. It's a challenge, because we're recreating the model here. There are others like Glenn Beck, or even Ron Paul himself, who have stepped out and done these subscription-based models. We've looked at that, but we say, "Well, the problem with that is you're behind the paywall." It's difficult to influence the culture behind the paywall. We're just trying to figure out what it looks like, and there are challenges to it. It's certainly more challenging to go off and start something than just go work for someone and stay in your specific wheelhouse. It's been a great experience so far, and it's been very exciting.

I think the best part about it is we don't just create these videos. We're also working with different groups across the country to create sustainable plans for how to restore liberty on a local level. That's probably been the best part of it. Going around to these different communities and meeting people in Minnesota or in Iowa or in Maine and New Hampshire or Illinois, talking to them about what it takes to restore liberty for their individual lives through county commissions and through mayoral races and the local police departments. That's probably been the most exciting part of it, just interacting with people in that

way. But it's been a great experience overall so far.

**WOODS:** Suppose somebody said, "This guy sounds really great. I've never gotten to see any of his stuff before." What would be one or two reports you've done, either with FOX or afterward, where you feel like you really put your best foot forward?

**SWANN:** I think the goal here is essentially, as I said, to influence the culture, right? So any way that we can especially reach young people, because this whole message of liberty, this picture of liberty in my mind is one where we really need to recognize there are a lot of different groups out there who have been separated by this Left-Right paradigm who should be working together. We should be working together. So how do we bring those groups together and find some commonality? We talk about Tea Party groups and Occupy groups. I think Occupy and Tea Party have more in common than most people want to believe. The reason for that is they both have justified anger over problems in our system right now.

They have more in common than they think, but the media's told them that they don't. Working to restore that, I think is important, and I think putting the best foot forward means approaching people in a way that is professional, that has a certain style to it, a certain look to it, that they're accustomed to and that they really like. But they also trust. Tom, it's an interesting time that we're living in. Alternative media's growing so much, right? But at the same time, while it's growing, there are a lot of people out there who are still not considered reputable, so how do we bridge that alternative side with the mainstream side?

**WOODS:** I guess what I mean is if somebody wants to go to YouTube and look at your stuff, what would you hope they would see? What's the best Ben Swann video ever?

**SWANN:** I see what you're saying. There are a number of them. If you go to the YouTube channel, you're going to see this whole playlist. Probably the strongest one that we have had so far—even though I think the quality of it is not quite what the other ones have been, so they've been getting better—is from during the summer, explaining what media was not telling the public about what was going on in Syria. We explained, I think very clearly, who the al-Nusra Front is, who the Free Syrian Army is. We do it in a graphic style that I think makes sense, and I think it's very clear. It's very concise.

Unfortunately, if you go and look at it, it'll look like only a few people have watched it, because we've had to replace the video. Between video and YouTube, over a million people have now watched that video. It's pretty exciting to me that the response to it has been very strong for people who say, "We are amazed at how clear you make this information and yet how little this information is actually out there in the mainstream." I'd encourage people to see that. It gives you an idea of what we're trying to do.

**WOODS:** I find it extraordinary. I think it's one of the only times, maybe the only time in my lifetime, in which the U.S. government clearly wanted to bomb somebody and has backed down from doing it. That almost never happens. And to see the scope of the opposition and to see how utterly diminished John McCain is, how can that not make us feel at least a little bit encouraged after the constant smacking down and depression we feel looking at this world? This was a "point of light," to borrow an expression

from George H.W. Bush.

**SWANN:** It absolutely was, and I think that those of us who have been sounding this alarm—I asked President Obama over a year ago during that one-on-one interview about why the U.S. was funding al Qaeda in Syria. At the time, I got a lot of criticism from other media and from management that I work with, saying, “Why are you talking about this? There’s no al Qaeda in Syria. This is all crazy talk.”

We see now, and you’re absolutely right—it does not happen where the U.S. government positions themselves for war and then stops. They don’t stop short. It was only because of this overwhelming response from the public. So overwhelming that when the president thought his next play, his brilliant play, was to hand it over to Congress and let Congress be the bad guy. No one thought Congress would back down. Even a Republican-held House was backing down so much that John Boehner didn’t want to hold a vote. He was afraid of how it would look when they were defeated, because they were going to lose. So when you meet guys like Thomas Massie and Justin Amash, they are emboldened by that kind of support.

We have a phrase we use often. We say, “Liberty is rising.” I think liberty in this country is rising right now, and it is the opportunity for that liberty message like never before. It is incredibly exciting to see the example of Syria and how, as you said, it’s unprecedented, that the public would be this informed on something that candidly the politicians continue to not tell the truth about. The mainstream media has not told the truth. They’ve gone through the same rhetoric that we saw in 2003 on the buildup into Iraq. It was the same rhetoric used in 2013 in the build up for Syria. Yet this time the play wasn’t there, so it is an exciting time in that respect.

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# Jethro Tull's Ian Anderson

## Guest: Ian Anderson

### September 25

*Ian Anderson, currently embarked on solo projects, is the lead vocalist and flautist of the legendary band Jethro Tull, which has sold over 60 million albums worldwide.*

**WOODS:** Tell us a little bit about Thick as a Brick, which hit number one on the album charts in 1972, and what's the premise behind the sequel?

**ANDERSON:** The original album in 1972 was an album generally thought by commentators of the time and now to be, I suppose, as a classic prog rock album, a progressive rock album, a concept album, and it came hot on the heels of an album called Aqualung, which became a very successful album for Jethro Tull. When I wrote Aqualung I was definitely not thinking about writing a concept album. It was a selection of songs, but in the way that you dress that up for public consumption and a vinyl record, in a gatefold sleeve album cover. You try and draw things together to give it a sense of unity, and maybe I overdid that, because a lot of folks thought that Aqualung was a concept album, in spite of the fact that I continued to say, "No, it's just a bunch of songs." Three or four of them have something to do with each other, but most of them are unrelated to the others.

When it came to the following year and a follow-up album, I thought, "Right, let's give them the concept album they think I just made in 1971." Let's really go to town on it. It was written as a bit of a parody of the prog rock genre and the concept-album era, to the extent of my pretending that it was written or lyrically that it was based on the poetry of an eight-year-old schoolboy, and to present it very much as a continuous-flow piece of music, which essentially was 20 minutes one side of a vinyl record and 20 minutes the other. It caught the imagination of a lot of people at the time. It was part parody, part serious, essentially the meanderings of a precocious mind on the verge of puberty. I don't know if you remember that, but I certainly do, and things were a little confusing and became even more confusing for the next four years or so. But that's an important part of any child growing into physical adulthood.

You have a distorted view of the world around you based on what parents tell you, what schoolteachers tell you, what you observe, and the way that you observe it from your own little world. It was in some ways a little autobiographical, as most things I write are to the tune of maybe 20 percent. Otherwise

based on a lot of other stuff around me, so I tried to see the world through the eyes of a prepubescent child grappling with the notion of making sense of the adult world. Forty years later, after a long hiatus and several attempts by record companies and peer-group musicians and fans and media to write a follow-up, a sequel, finally I came up with an idea at the end of 2010. In early 2011, I sat down to write that sequel based on the very simple idea of what might have happened to Gerald Bostock, the fictitious child poet. What might he be doing today? So I wrote down a list of 15 possibilities, whittled it down to five, and started to write. About three weeks later I had an album.

**WOODS:** For what it's worth, it's my favorite album of yours since *Stormwatch* in the late 1970s. It really demands the listener's attention. It's not just something to have on in the background. You've got to sit there and listen to it, listen to the lyrics, follow the story. The tour has been a great success—commercially, no doubt, but also critically. I've been very pleased to see what a lot of reviewers have said: I went to the concert knowing *Thick as a Brick* would be very good, but I had no idea how good the new material would be and how well it would translate to the stage. That's got to be gratifying.

**ANDERSON:** Yeah, I think the moment when I started to write the album, I was very much trying to put something together with a lot of visual references and things that I could do in terms of staging that would make it a performance piece. So I was constantly relating back to the original *Thick as a Brick* and how that might be staged, too. What sort of visual imagery we could be using in terms of our video screen and additional performers and so on. The way that we present the show, it had to tie together. I very much wrote the album all the time almost writing a performance, writing a concert live performance which I didn't do in detail really until after I'd finished the recording. Certainly in quite a lot of places, I had a fairly good idea how I was going to do the performance side of it, the actual stage production side of it, while I was writing, rehearsing, and recording the album. The detail came later when I sat down to write the show in the couple of weeks after I finished recording the album.

**WOODS:** You're currently on another leg of the tour. I attended a show on the first tour. I flew down to Chicago, because I didn't know there was going to be a second leg. I couldn't imagine missing the performance of *Thick as a Brick* all the way through, which hadn't been done in 40 years. Where does the current leg of the tour take you?

**ANDERSON:** Well, we revisit some areas that we've performed in the last year with *Thick as a Brick* in 2012, and so we have another couple of shows at the Beacon Theatre in New York City and start out on Long Island. Then we head off to Boston again, and then wind our way up to Canada and play Montreal to Toronto, Hamilton, Windsor, back into the U.S. for one show south of Chicago in Merrillville. Then we head up to Winnipeg, where my wife particularly enjoys having a birthday, so we spend a night off in Winnipeg and then do a show there and across Canada. We finish up back in the USA in Tacoma.

**WOODS:** This is sort of an inside-baseball question but some of us are interested in it. How did you meet Steven Wilson, who I think is one of the more underrated musicians out there? Of course, he's a great producer and great technical guy as well. How did you meet him?

**ANDERSON:** He was someone I got to hear about, really, because of his work in remixing one of the classic albums of King Crimson, so as a remix engineer and producer in his own right of his own material, under his own name and prior to that, in the band that he founded some many years before, he was someone known to me really for his remix work. When EMI asked me about doing some 5.1 surround remixes of Aqualung and other albums I suggested Steven Wilson. He was approached and did a couple of test bits, which he sent to me.

I thought he had a good approach, which was to keep very much the same layout in the stereo picture, to extend that into the surround sound world and to keep the balance pretty much the same. To technically clean things up, have a much more sparkly mix, because these days in the digital world you can dump all the background hiss and clatter. Take noise and the rumbly sort of things that are extraneous to the music that you couldn't help but record at the time, so you can clean it up a lot in the digital world just by taking away the stuff that is not musical. We have a much clearer, more transparent mix.

Steven—he has a great respect for the original work, the original production which, of course, was me producing and mixing the album. But to do that again now with his slightly younger ears—I mean only slightly younger. Steven Wilson is himself no spring chicken, but he's got ears that are 15, 20 years younger than mine, so slightly more trustworthy when it comes to mixing. So I asked him in fact when he came to having done A Passion Play, Benefit and Aqualung and Thick as a Brick 1, all of that was a work in progress, if he'd be interested in doing the mixing of the Thick as a Brick 2 album, which indeed he did. So I spent many hours in Steven's studio, with him working on the remixes of those old and new albums, and for the most part, I'm quite content to let him do most of it without me being in the room. He sees it very much the same way as I do. I think he has a natural understanding, really, of a lot of elements of classic rock. Not just my music but other artists, too. So he's a good man.

**WOODS:** You did an interview not long ago in which you were talking about Thick as a Brick 2, the current album, and you said something along the lines of, "There has to be a place for thinking man's music." I thought that was an interesting remark. Can you elaborate on that?

**ANDERSON:** It's thinking person's music, because one of the nice things about Jethro Tull and the work that I do on my own name is that it's kind of boy, girl, boy, girl out there in the audience. We've never been a band that appealed to a largely male audience. In most countries we play to it's always been a mixed audience. Mixed also because we naturally look at the demographic. It is pretty broad. People who are from all walks of life. I'm really very happy that that's the case, because there are so many bands who just do have the stereotypical kind of male black t-shirt, air-punching sort of audience or just the rock-and-roll beer-drinking buddies. Luckily it's not been that way for us, so I think it's something I always wanted to perpetuate was that you can make music which reaches a broad swath of people on different levels.

Yes, there are elements of straight-ahead rock music there, which appeals to the beer-drinking buddies, and there's a lot of music that I suppose appeals more to the sensitive and more feminine types. That's just really reflecting my own interest in music and my own interest in trying to reach across the musical



genres and to embody all of that in a somewhat eclectic style. It's not meant to be overly challenging in an intellectual context, but I do like to think there's a little more depth and gratification to be got by listening to the music, reading the lyrics, and going into the detail of what goes into making that kind of music and recording that kind of an album. You don't want to make it too difficult. It has to be entertainment.

**WOODS:** When you look over your whole catalog, what are you the proudest of?

**ANDERSON:** Not unwaveringly so, but here and there I think I have a pretty good opinion of some of the lyrics that I've written. I've written some of the worst lyrics and some of the best lyrics in rock music. I think when I look back on it, because I don't go where other people go and do it much better than I can do it anyway. They've lived that life and, perhaps, can talk with authority. My lyric writing at its best is kind of out there. No one else uses those words, those constructions, those thoughts. I do feel that I've stamped my own kind of authority and individuality on rock music lyric writing when I've done it well. I've done a whole bunch of stuff, and look back on it and think, "What was in my head writing that?" Usually because I've been too self-consciously trying to write in a certain way.

These days I just let it flow. I don't really analyze what I'm writing, and I don't set out to write it a certain way. I really just let it happen, and then begins the laborious process of editing, organizing, cutting, pasting, putting things into the finished and polished trim. I do start off by just being a lot more confident, more relaxed in the way that I write things. Lyric writing at its best is what defines me, and I suppose the other obvious thing that defines me is the guy who plays the flute in a rock band. After all these years, I'm probably still the only person, internationally speaking, who's really known for doing that to the level that it's given the flute a prominent role in the history of rock music.

**WOODS:** I want to let you run in a minute, although I appreciate your comments about your lyric writing, which I think is ridiculously underrated. Just what comes to mind is that wonderful little song "Weathercock" from Heavy Horses. It's just a beautiful ode, the sort of subject that wouldn't be taken up by anyone else, and from time to time on my website when I'm trying to promote your stuff, I just quote the lyrics, because they're beautiful and creative. A lot of times people say, "Oh, listen this band's lyrics; they're so deep," and they sound like a seventh-grade poetry contest winner.

But before I let you go, my ten-year-old daughter, Regina, is taking up the flute, and she loves Ian Anderson. I'm sure she would love some parting words of wisdom from you. Have you any for her?

**ANDERSON:** [Laughter] It's always dangerous trying to impart words of wisdom to people regardless of their age, but it's particularly scary when young people who are at that point of, I guess, wanting to distill the confusing thoughts. I suppose it would be that nothing in life is terribly easy. It's actually summed up best by an ex-American president, by Kennedy, who said—having had his nose rubbed in it by the Russkies when they not only got Sputnik into orbit before the Americans could do the same but then managed to get Yuri Gagarin 51 years ago into space—of course the big comeback was the promise to take America to the moon within ten years.

Kennedy said something that has meant a lot to me over the years. I'm paraphrasing here. We don't choose to go to the moon because it's easy. We choose to go to the moon because it's hard. In other words, things that do seem daunting, do seem like an impossible challenge, are very often the things that really do drive people to excellence, to achievements. And he wasn't talking about himself. He was talking about thousands of people that had to be doing their best, had to achieve excellence to do what he had promised the American people he would do in ten years. Not that he was the guy there at the time, but that meant a great deal to me. I suppose that in a way carves out a good motto for life, doesn't it? "Choose to do some things not because they're easy but because they are hard," as he said in his Bostonian American accent. You know hard, difficult, and I think that's a good lesson to keep in mind, and it took Buzz and Neil to the moon. So it can't have been a bad thought.

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# The DUI Racket

## Guest: Warren Redlich

### September 27

**Warren Redlich is an attorney in Albany, New York, and is the author of *Fair DUI: Stay Safe and Sane in a World Gone MADD*.**

**WOODS:** I want to dive right into your book *Fair DUI*. You have a website, FairDUI.org, that people should visit, and where they can get the book. You mention incidents in which people followed the rules and weren't necessarily guilty, and yet got in trouble anyway. I think our inclination is, "Look, I'm innocent, or I've had only one drink, let me just tell the officer that." You're saying that if you get pulled over in this sort of situation, the correct approach is to say nothing at all. Why is that?

**REDLICH:** Any lawyer would tell you that. You have the right to remain silent. Listen to the words of the Miranda warning. "You have the right to remain silent. Anything you say can and will be used against you in a court of law." They never say, "Anything you say might be used in your favor in a court of law." I've seen time and again people talk to the police, innocent people talk to the police, and their words are twisted against them. The short story is, I've never seen a case where my client talking to the police helped them. When you talk to the police, you are giving them evidence to use against you. That's the reality of it, so it's difficult for a lot of people to carry it, to pull it off. A lot of people aren't comfortable taking that approach of just not talking, and a lot of people aren't going to be able to do it.

Your followers, the people who follow the Ron Paul movement, who follow Tom Woods, are more likely to be able to do what's needed. You see these checkpoint videos. I think one of the things that motivated me was, I would watch these checkpoint videos, and I don't really agree with the way these guys handle the checkpoints where they go up and they say, "Am I being detained? Officer, am I legally required to answer your question?" First of all, you know you're not legally required to answer his question, so don't ask stupid questions. Second of all, he just told you to pull over. Of course you're being detained. I get frustrated with that, and I think people ought to do what lawyers would tell them to do, which is don't talk.

**WOODS:** Suppose I'm pulled over, and the presumption is I'm pulled over for speeding. I feel like I have talked my way out of a speeding ticket before. Maybe it would have been stupider for me not to say anything. Is there ever a case where you think it's possible to improve your situation by talking? Is

it only DUI in which you ought to stay silent?

**REDLICH:** No, no, no. I'm saying if you're the activist, and you're trying to confront the police officer, there's a way to handle it. I definitely think if you haven't had anything to drink at all, most of the time you're in a community where you're comfortable. You have lighter skin, you're somebody that's dealt with the police before, and you've gotten along with them. I've been pulled over. I've had a nice conversation with the police, and I've gotten a warning instead of a ticket. That definitely works for people.

But you've had one drink. You went out to dinner with friends. You had one glass of wine. Maybe you had two, and you get pulled over. You think, "Well, I'll just be the same guy I normally am, and they'll go easy on me." You don't know when you're going to get that wrong cop who's going to decide, "Oh you had a drink? He's probably understating it. He probably had five. Let's take him down to the station and have him blow in the machine." And then you find out later those machines don't really work the way they're advertised.

**WOODS:** You told a story on the Mike Church Show about a guy who had some kind of foreign accent, and the police said he was slurring his speech.

**REDLICH:** Yes, I've seen that multiple times. I see it with Spanish-speaking clients. In this case, it was a Japanese client who was from Japan and whose English is limited, and the police officer testified in open court under oath that my client had slurred speech. I don't know how he could possibly tell that a Japanese guy has slurred speech. Of course his speech was impaired, because he doesn't speak English that well.

**WOODS:** I think the reason people are so willing to cooperate is that we kind of have this naïve sense that the system works and the institutions in place are all fair, and they're just designed to get to the truth. You're suggesting that that's not necessarily the case, particularly with these standardized field sobriety tests that we sometimes see on TV cop shows. What are those tests, and what's wrong with them?

**REDLICH:** I think the one that's easiest for people to understand, especially on the radio, is the "walk the line test," or, as it's technically known, the "walk and turn test." The idea is that the police will instruct you to take nine steps heel to toe, turn around, take nine steps back. Then they're grading you on that. It depends. Different states do it differently. In New York, where most of my experience is, the police officer will testify that you stepped off the line. There's no line. It's an invisible line. How does he know where you thought the line was? In the instructions, and this is national, the instructions in the national manual from the National Highway Transportation Safety Administration, what they're supposed to say to you does not include the word "line." They tell you to walk heel to toe, so it's basically walking an invisible tightrope. You're not supposed to use your arms. They don't tell you you're not supposed to use your arms, but if you use your arms, that's a sign that you messed up. If you step off the invisible line, that's a sign. How wide is this line? Is it a foot wide? Is it an inch wide? We don't even know. It's in the officer's head.

These are excuses that police will use to claim probable cause to arrest you. They're just examples of it. There's a test where they look in your eyes, and they look for something called nystagmus. It's a nystagmus test. They look for whether your eye bounces or jerks uncontrollably, which is a human feature. We all do that, and the instructions tell them if you hold the eye all the way out to the side for long enough, sober people will show that. All these tests, we describe them in the defense lawyer community as tests designed to fail. Sober people can't pass these tests, or most sober people will fail these tests the way they're done. It's just a fiction that's created for a cop to come up with a justification to take you down to the station.

**WOODS:** If these tests are that flawed, then isn't this something that you as a defense lawyer can capitalize on in a courtroom?

**REDLICH:** Yes, but do you want to spend \$5,000 to \$10,000 on a lawyer? You're talking about doing a trial. Do you want to spend \$10,000 doing a trial? Sure, I'll make that argument. With a lot of judges, they rubberstamp everything the police do. The guy who testified that my client had impaired speech, slurred speech—was Japanese. The judge said, "Okay, I don't see a problem with that." I think part of when you say the system is fair, we count on the judges to be fair. We count on the judges to be what they call "neutral magistrates." But how many judges have you heard brag about how many DUI defendants they let off?

**WOODS:** Yeah, true.

**REDLICH:** Right? How many prosecutors? How many judges brag about how sensitive they are and how fair they are to defendants? No. The whole system is designed, especially where judges are elective and even when they're appointed. They've got to be tough on crime. They've got to be tough on DUI. If they're not tough on DUI, Mothers Against Drunk Driving's going to say, "This guy's a bad judge. Don't reelect him. Don't appoint him." So it's not a fair system.

**WOODS:** You're right that people expect judges to be fair, to look dispassionately at the evidence, but I think they also think that we have really good scientific means of determining a person's condition in terms of alcohol intake. So, for example, we have this "walking the line" test. We get the pen in front of the nose. We even have the Breathalyzer, and this is all super scientific. Well, what about the Breathalyzer? What should we know about that?

**REDLICH:** So first of all, the trade name Breathalyzer—I think that device is not commonly used in most places. There are two different breath tests. There's the one that they do out in the field. They pull you over. They do these tests. They say, "All right, blow in this handheld device." And that device is called an Alco-Sensor, or a portable breath-screening device. That one is not admissible in court for the number it produces. It's usually admissible in court whether it was positive or zero. And of course, if it's zero, you don't end up in court, hopefully.

But the one that is most commonly referred to when you see a news story is, "Somebody blew this level."

That is usually what people commonly refer to as the Breathalyzer, although people get confused about that. It might be called the DataMaster. In Florida, it's called the Intoxilyzer, and it's a larger device that's usually in a room. It's not huge, like the size of a Univac, but it's a larger device that's not handheld. Sometimes they have them in vans. You blow into this device, and you're supposed to blow a certain volume, and it reports a number.

There are tremendous flaws in these devices. I've seen plenty of cases. I was just at a seminar in Florida a week or two ago where this guy showed us a report from a device where the guy blew a zero volume, but he blew a .22 blood alcohol content, three times the legal limit, roughly with no volume. How do you blow a .22 with no air? Then in Florida they do a second breath test, so the second test he blew three liters and a 0.0. So how did this device report a .22 on the first test? We don't know. We don't know what's wrong with this.

They hid the source code. I don't know if you've seen this, but with the breath-testing devices, the manufacturers won't reveal their source code. So a defense lawyer says, "I want to attack the device itself. I want the source code." They won't turn it over, and the judges often won't make them. If the judges do make them, then they drop the case.

The only reason people think the test devices work is that the government and the mass media tell them they do. The practical reality is there are many flaws. A prime example that a lot of us see in my work is what's called mouth alcohol. You burp. In burping you bring up that residual alcohol that was in your stomach. When you blow you're not blowing alcohol from your lungs. You're blowing alcohol from your stomach, and that gives an abnormally high result. There's basically no protection for you against that kind of result. So if you had a drink six hours ago, eight hours ago, it turns out the way your physiology works, your eating works, your stomach didn't process that alcohol yet, because the alcohol gets processed in the small intestine. If it hasn't gone into the small intestine yet, that alcohol might still be in your stomach. You could blow an unusually high number. Keep in mind, the idea is they're supposedly measuring the alcohol in your blood, right? You with me on that?

**WOODS:** Yeah, sure.

**REDLICH:** So they don't take your blood. Even when they draw your blood, by the way, they don't actually measure your blood. They measure the gases that come off your blood. When you blow, they're measuring the alcohol in your breath, and they interpret that to mean what the alcohol in your blood probably was. Probably. There are many flaws in that, depending on your body temperature, for example, if you're running a fever of a couple degrees. That can throw the results off substantially. All kinds of things can throw off the result, especially mouth alcohol. Mouth alcohol can produce ridiculous results. I had a trial with a guy who blew a .16 after two glasses of wine over four hours. The jury found him not guilty. But multiple witnesses testified that he was sober. The police officer was one of the worst witnesses I've ever seen, and fortunately the jury said "not guilty," and recognized the guy was sober. That's the world that you live in, and he spent a lot of money to protect himself that you shouldn't have to spend.

**WOODS:** Let's talk about MADD. When I was growing up as a kid, I thought these were civic-minded moms who just wanted to make the world a better place, right? Mothers Against Driving Drunk. Is that not the case? Was I misled as a kid?

**REDLICH:** I think most of the people who get involved with it get involved with that motivation, but ultimately it's a special interest group that gets a lot of money funneled to it through the drunk-driving programs. If people actually stopped driving drunk, MADD would lose all its money, and the people who run MADD would be out of work. This is true with drug-policy reform groups, too. If we actually legalized drugs, all these guys wouldn't have any jobs, either. People don't realize that, for example, when you get arrested for drunk driving, they have you do a class. MADD runs the class, and they get \$25 a pop, so they get 100 people in the classroom, they get \$2,500. They do that once a month in my hometown. They get \$2,500. Just one town, 30,000 people in upstate New York. They're making \$2,500 a month off one town. They're doing this around the country. They do these classes. They make money off it. They get funded by people who sell devices.

They want a device in every car. They're still pushing this. They want a device in every car. Not just every car of anybody who's ever been convicted, but every car. They want every car to have a device in it. If it detects alcohol in the ambient air in the car—it's called DADSS, I think: Drug Alcohol Detection Safety System. Something like that. DADSS I'm sure is the acronym. They want that in every car, and the problem is, do you really want the government deciding whether your car's going to start by smelling the air in the car? This is absolutely true. It's DADSS. Look it up. There's a push right now from the National Transportation Safety Board to lower the BAC limit to .05. MADD actually hasn't jumped on board that one yet. I'm sure they're half on board with it. It depends which chapter you're talking about. I give credit. Some of the state chapters have said, no, we don't need to go to .05.

The ultimate problem on the road—first of all, you've got to recognize that somebody who's at a .05 or a .08, not to say that they wouldn't be safer if they didn't have that blood alcohol content, but they're not that dangerous. The real problems are people who are hammered. The real problems are people who are getting hammered all the time and driving.

There's something I've been talking about that really rattles people. I want you to consider someone who was an alcoholic. You've probably met someone in your life who was an alcoholic. I don't mean a sober alcoholic who's trying to recover and is in recovery and isn't drinking. I mean somebody who is regularly drinking alcohol on a daily basis to the point of intoxication. Ask yourself this question. Is that guy a better driver when he hasn't had any drinks at all or when he's had three drinks? Three drinks and that guy might be a .07 or .06 depending on his body weight. At no drinks that guy's a mess. Same thing with drug addicts.

People say, "We've got to do more. What about all the drugs, and people driving while they're on drugs?" Somebody who's a heroin addict is probably a better driver when he has a little heroin in him than when he hasn't had heroin in a couple days. People don't want to think about that, and the studies they do that say people are unsafe when they have a certain amount of alcohol—they take sober people who never

drink. Then they give them drinks and they show, “Oh geez, these guys don’t perform that well.” They don’t take alcoholics and see how they perform. That would be a very different study if you said, “Let’s take somebody who actually drinks all the time and see how they perform in these driving tests.” I think if you think about that example of the alcoholic, if you knew a raging alcoholic, would you think he’d be a better driver when he hasn’t had any drinks in a couple of days or when he’s had a couple of drinks in the last half hour?

**WOODS:** That thought never occurred to me. There’s a one-size-fits-all application to this thing.

**REDLICH:** Our whole criminal justice system—you just triggered a wire with me—our whole criminal justice system is a one-size-fits-all system. It’s an assembly process. I could go off on all these ideas. There’s a lot of movement towards what’s called diversion programs, where you take drug offenders or drunk-driving offenders, and you put them in some special program where they get educated and they get education on the system. They get a benefit out of it. They get a lesser conviction or whatever, and my favorite example of that—I know I’m going off the drunk driving thing, but Jared Lee Loughner, the guy who shot Gabrielle Giffords. He went through two diversion programs in Tucson, Arizona. Somehow they missed the fact that the guy was a raving lunatic.

The problem is, it’s an assembly line. They just stick everybody in a room. I had a client who had a specific drug problem, and I took him to a psychologist to evaluate him, and said this is an appropriate treatment program for this guy. We put it into the court and said, “Judge, we want this guy in this diversion program, and this is the treatment program he should have.” The judge has his own evaluator, and he says, “Oh, he’s perfect for my program.” Right? Everybody goes into this guy’s program, and it’s a one-size-fits-all program. Mental health is not a one-size-fits-all thing, but that’s what we do in our criminal courts. We treat mental health like it’s a one-size-fits-all system. Our criminal justice system is one-size-fits-all. Mandatory minimums are a great example of that. One size fits all. It doesn’t matter what your circumstances are. You get a minimum of ten years for that offense. So our criminal justice system is a disaster. Prohibition, of course, is a disaster.

Really, when you look at the drunk-driving laws, taking it back to that, ask yourself this question. Weren’t the reckless driving laws that we had before the DUI laws enough? All you’ve got to do is, if a cop observes somebody driving in a dangerous manner, and he pulls them over and he determines he’s drunk, he charges them with reckless driving, and the alcohol or the drugs, if it’s drugs involved, are a factor in the reckless-driving charge. Why did we need to create this whole elaborate system of drunk-driving laws? We don’t need that. That’s a bigger question.

**WOODS:** I think there just might be something other than simply a desire to look out for the public good motivating some of these policies. In some cases, it’s a desire for lucre on the part of law enforcement, or in other cases, it’s a political question: we’ve got to appear to be tough on lawbreakers. Being tough, in turn, means being as unreasonable and as one-size-fits-all as we can.

Let’s talk about what you have at [FairDUI.org/flyer](http://FairDUI.org/flyer). You have a flyer that’s tailored for New York, and I



think one's tailored for Florida, that people could just put up on the car window when they're pulled over.

**REDLICH:** This is again motivated by checkpoint videos, and I don't like the way people do it. The idea is if you're pulled over in a checkpoint, or you're pulled over for a traffic stop, instead of rolling down your window and engaging in a conversation with a police officer, you hold up this flyer. The flyer has large print, three phrases, "I remain silent," which invokes your Fifth Amendment right to remain silent. It says "no searches," which means you're invoking your Fourth Amendment right to be free from unreasonable search and seizure, and it says, "I want my lawyer," which is your Sixth Amendment right to counsel. Then in smaller print, and it varies by state, it says, "Please put any tickets under the windshield wiper."

If you're pulled over for a traffic stop, the guy's going to write you a ticket. He's got to be able to give you the ticket. At least in New York and Florida, and I checked a few other states, California, New Jersey. I checked Ohio. There's no requirement that you sign the ticket. There's no requirement that they physically hand you the ticket. It says put any tickets under the windshield wiper, and their job is to serve you with the ticket. So you've accepted service under your windshield wiper. Now you don't have to roll down the window to get the ticket. The other thing people think is, "Well, I've got to hand them my driver's license, or I've got to hand them my insurance card or my registration card." Again, in the states I mentioned, there's no requirement that you hand it to them. There's a requirement that you show it to them. So if they say, "I need to see your license," you put your license up against the window so they can see it. Registration, insurance, whatever—you slap it up against the window, so they can see it. The card says, "I'm not required to hand you my license," and it cites the statute or the case that supports that. It says, "Thus I am not opening my window." Then it says, "I will comply with clearly stated lawful orders."

You as a driver, if you put this up, and the police officer says something to you, you have to make a decision, "Am I going to comply with what the police officer said?" And ideally again for your followers, for Ron Paul followers, they are more likely to do this. You want to record this encounter, because if the police officer says, "If you don't roll down your window, I'm going to smash it in," most people probably don't want a smashed window. At that point, if you've got that recorded, you didn't voluntarily roll down your window. At a checkpoint, the cop's going to say, "Well, I needed to talk to them." Well, you just told him you weren't going to talk to him. "Well, I needed to smell inside his car." You said he couldn't search. "It's not a search." Yes, it is a search. There's a U.S. Supreme Court case fairly recent where they said a police officer could have a drug-sniffing dog sniff around the outside of a car. They didn't say Sparky could go inside the car. They only said Sparky could sniff around the outside the car. So I don't think Officer Johnson can smell inside your car, either. I'm relying on the U.S. Supreme Court, which some people think is a reliable authority.

I've got friends who are cops. I've dealt with cops in court, and of course, I've been pulled over. When you pull laws on police officers they get uncomfortable. They have a certain situation they're used to. They're used to people who aren't giving them a hard time. If you give it to them in a certain way where you're citing a specific law, now the cop's like, "Oh, crap. I've got to go look that one up, and I don't

want to.” If they’re running a checkpoint, and they’ve got 1,000 cars waiting, for a lot of cops it’s like, “I’ve just got to get out of here.” Go ahead, and technically under the constitutional rules for checkpoints, they have to have written guidelines about how they’re supposed to handle each situation that comes up. The written guidelines aren’t going to include, “What do you do if a guy holds up a car and refuses to roll down a window and asserts his constitutional rights?” It’s not going to be in their guidelines, so that creates a problem.

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# Why Nonintervention?

## Guest: Daniel McAdams

### September 30

*Daniel McAdams is executive director of the Ron Paul Institute for Peace and Prosperity (RonPaulInstitute.org), and served for many years as foreign affairs, civil liberties, and defense policy adviser to Congressman Ron Paul.*

**WOODS:** Isn't it amazing how quickly Syria went from being a front-burner crisis to now being yesterday's news? Like, ho-hum. People are already yawning about it.

**McADAMS:** It is.

**WOODS:** What do you think about this? This is very unusual in American foreign-policy history.

**McADAMS:** It's interesting, and I think it tells us a number of things, Tom. One is that the whole idea that the use of force should be a final option when everything else has failed is completely thrown out the window—because this, as you say, was such a crisis a couple of weeks ago where even force was being considered, and now all of a sudden nobody's talking about it. So obviously, it wasn't the last possible choice that could be made.

**WOODS:** Right. I'm not sure we necessarily bought that to begin with, but it's fun to see it completely exploded.

I wanted to have you on when I was hosting the Peter Schiff Show some time ago, and it turned out you were in Hawaii. By now it's slightly old news, but no fallacy is too old to be smashed. How do you answer the claim made by Obama's people that the progress in Syria, in terms of getting them to hand over their stockpile of chemical weapons, wouldn't have occurred if it hadn't been for the threats of military force on the part of the U.S.? In other words, it's not Russia that deserves the credit for the breakthrough. It's Obama himself. What's your answer to that?

**McADAMS:** It's a pretty good spin, and it's tempting to say, okay, we'll take what we can get. You guys can take the credit. Everyone looks good. I think the Russians probably knew that when they made this proposal—which, who knows, it may have been knocked around back and forth for months or longer

than that. I think you have to give the Russians credit. They were looking for a diplomatic solution that would give the U.S. a face-saving measure and would defuse the situation, which they understood would be explosive for everyone. If that's what it took to make them feel better, I was tempted to let them have that, I guess.

**WOODS:** I would, too, but do you think there's something fake about it?

**McADAMS:** I think it's certainly an embellishment of the facts, but I think the Russians were literally astonished. If you think about it, Obama was almost apologizing for it before it happened. Don't worry. Just a shot across the bow. Just to send a message. No big deal. As if we're going to send a nasty letter from our lawyers. We're talking about thousand-pound payloads on these Tomahawk missiles, which anyone with a brain knows would have killed, I'm sure, orders of magnitude more people than these gas attacks or whatever they were that occurred on the outskirts of Damascus on the 21st.

**WOODS:** We have to be careful, of course, not to get too gleeful about this situation and to read into it more than is there, but as I've said on Peter Schiff Show, the career of John McCain has had some very interesting twists and turns over the past five years. You remember late 2007. He was doing so badly in the polls that there were rumors he might actually drop out. Then he wound up firing everybody. He winds up getting the nomination. He's riding high. He loses, but hey, he was the GOP nominee. You can't take that away from him.

Now in 2013, he is held in such low regard by everybody except the establishment whose respect he craves that his whole worldview, for this glorious moment anyway, lies in tatters and is totally repudiated. Am I reading too much into this? Maybe the neocons or some of the Christian Right people will still support the next war that comes along. It's not as if they've all become antiwar. But this is still an interesting watershed moment, don't you think?

**McADAMS:** Well, it's as you wrote to me the other day: "It's almost impossible to parody John McCain." But it is in a way the horrible fate of those of us who are interested in foreign affairs and foreign policy, because it's always the people like John McCain who want to be involved everywhere and do something no matter what the crisis is in the most remote part of the world. They're always the ones that are considered the quote "experts." They're always the ones everyone listens to.

I remember back when I was serving on Dr. Paul's staff. At the time it was Tom Lantos who was the Chairman of the House International Relations Committee that Dr. Paul was on. It was the same thing. Everyone deferred to him. He was the great expert, but their expertise is, first of all, as you point out, in being wrong—everything they recommend is wrong. Yet somehow they're always listened to, and people that argue for restraint and for really getting an understanding of as much as we can of extremely complex issues—we don't get the credibility that the McCains and the Lantoses of the world get.

**WOODS:** Then he hires this woman who lied about her credentials. The more you lie, the more interested they are in you. That's a separate issue. There's pathology there.

**McADAMS:** Sure.

**WOODS:** You made reference just now to working for Congressman Paul. I want to talk about that in a minute, but I want to wrap up the Syria thing. You had a post over at [RonPaulInstitute.org](http://RonPaulInstitute.org)—which I highly recommend, by the way. I know people feel they already visit a lot of sites, but it's called the Ron Paul Institute, for heaven's sake. How could it be bad? It's run by Daniel McAdams. He's a great guy. It's where you can get some excellent foreign policy analysis.

**McADAMS:** It's actually run by Ron Paul himself. He's the founder and CEO, so this is Ron Paul. We're the only organization that he was willing to put his name on, and he's extremely involved in what we do. I only carry on what I've been doing for Dr. Paul for all these years, which is helping him, but this is his Institute, just to clarify.

**WOODS:** That's wonderful. The Institute is Ron Paul's congressional career except without all the headaches and annoying jerks you have to deal with. Now you can just have speeches and articles and all this stuff reprinted and available on the site and get Ron Paul's commentary fresh. You don't hear him delivering it on the House floor, but you get it right there on your computer. Just as good.

**McADAMS:** Sure, and we don't have to be as nice to people like McCain, like we used to be. We can be nasty.

**WOODS:** It's probably some kind of professional courtesy before.

**McADAMS:** That's right.

**WOODS:** From Thursday, the headline is, "A New Agreement in Syria: Obama War Hawks Defeated on Every Count." Can you share that with us?

**McADAMS:** On the two major things, what was really fascinating for me to watch is John Kerry. What an incredibly amazing person. He's been so spectacularly wrong, wrong-footed, foot in mouth, you name it. Remember all along when this agreement was reached on the destruction of the Syrian chemical weapons? He was insisting all along that any resolution before the UN Security Council would be brought up under Article Seven, which would have provided for the use of force. If you remember, this is a trick that the Obama Administration used on Libya. Let's bring up a resolution under Article Seven, but which doesn't explicitly call for war. After a lot of cajoling they got the Russians and Chinese to sign off on it and *boom!* Bombs away immediately. The Russians were understandably hesitant to support such a thing, but Kerry nevertheless kept promising that this is what would come up under Article Seven. When it finally came out, it was not brought up under Article Seven, which means that if there is to be a use of force it cannot occur under the resolution that the Security Council passed. We have to go back to it.

An enormous defeat but all the way up until the end, Kerry was claiming that, "Oh yes, this would happen. It would be under Article Seven." "It is an amazing defeat for Kerry personally, and of course,

no mention of regime change at all in the article, which is the other thing that the administration wanted to have. The third major thing that Obama was pushing for so much in this resolution was that it did not ascribe blame for the attack near Damascus on August 21st. Even in Obama's speech before the UN last week, he claimed unequivocally that it was the Syrian government that carried out this attack, but no one else believes it in the whole world. They weren't able to get this into the resolution, so everything they wanted, to lay the groundwork for a future attack, was left out of this resolution. I'm with you, Tom. I don't think we should be overly optimistic. This is at best a tactical victory, and the cynic inside of me wonders if this very much-welcomed rapprochement with Iran over the past week is not to lay the groundwork to pursue regime change in Syria. Maybe I'm just too pessimistic.

**WOODS:** It is interesting to me to see. Did you see that letter that came out a few weeks ago by the Iowa GOP, signed by many, many people? At least 30 people, a lot of them are very well known in the Christian Right in Iowa. I'm not saying this to make fun of anybody, because I like the people in the Iowa GOP. But some of these Christian Right people. All of a sudden they're concerned about the fate of Christians in the Middle East, which has not fazed them in ten years. You tell them all about the fate of Christians in the Middle East, and they couldn't care less. All of a sudden, they care deeply about that. All of a sudden they care about the possibility. that maybe we're helping al Qaeda, all these things that should have been obvious for ten years. This letter is at least some kind of admission from them that, well, maybe there is another way of looking at this. It's not just commie pinkos on the one side and us super patriots on the other.

**McADAMS:** Yeah, and I probably focused to a disproportionate degree on talking about Christians killed in Syria. Part of the reason, really, is that there are a lot of Christians who are misguided, I think, on the war issue here in the U.S. I've written a lot of things for the Institute's website and elsewhere underscoring the threat that they face. Of course, every innocent being killed is lamentable, and certainly many Muslims are being killed as well, but really for the American Christians I wanted to point this out. These are people who share your faith, and they're being killed by the people that we're supporting who happened to not share very many of our values, I don't think, the extremists. And you saw this siege and this historic Christian village in Syria where there were so many beautiful ancient icons and things of this nature and monasteries by these radical jihadists who were beheading priests and bishops, and maybe because it got a little bit of news it did give a bit of a wakeup call, which is to be welcomed. As you know, sadly, our intervention in Iraq sent all of the Iraqi Christians into Syria, because that was relatively a safe place for them under Assad. Not a great guy, but nevertheless that's where they went. So that's where they felt safe. They get there, and the next thing you know we're intervening in Syria and then they're all getting killed there. It's just terrible.

**WOODS:** You started working for Ron Paul in 2001. Had you been working there for some time by September 11th, or did you come on board after that?

**McADAMS:** Actually, it's funny, because I had a clandestine phone call from a staff member who was thinking of leaving but did not want to leave Dr. Paul in the lurch, so he wanted to make sure. I had been writing for Lew Rockwell for some time, so I was somewhat known in our circles. I had this clandestine

call. I was looking for a job, and I had admired Dr. Paul's work for quite some time while I was living in Europe, and all of a sudden, in the middle of this 9/11 happened. I thought, "No. It's all going to be off now." But thankfully, this gentleman departed, and I was able to come onto Dr. Paul's staff in October, so I missed that exact day. However, I was in for all of the Patriot Act and all of these things that followed—the FISA courts and all these horrible attacks on our civil liberties that Dr. Paul, as you know, warned everyone about. This is what's going to happen, and now we're finding out that it's even worse than we could have possibly imagined. We've become the targets, not the terrorists.

**WOODS:** What was it like being in his office at that time when there weren't a whole lot of voices of reason? You guys must have been, even more than usual, the outliers.

**McADAMS:** It was very nerve-wracking, to be honest with you, Tom. As you know, Congressman Paul comes from a very conservative and patriotic district in Texas, and the way these issues were portrayed at the time—there was a lot of emotion in the U.S. on everyone. They took advantage of the people who would pass these laws. They took advantage of these emotional reactions and the patriotism, and it was wrapped in the flag. It wasn't a great time.

Thank God for the courage of Dr. Paul, because people that were saying what he was saying were called traitors, and I can't tell you how many thousands of calls we got in the office of people who were furious. We fully expected, or we thought certainly very, very possible that he could lose in 2004. That's when it was really the worst, because Iraq had just been invaded. That was sort of the fever pitch I think of the whole thing, so it was very nerve-wracking. We felt we had to fight, rhetorically speaking, from all sides. The left, the right, the center, it was not an easy time.

**WOODS:** What was it like for Ron Paul, especially let's say during the 2008 campaign and 2007, after he'd had that exchange with Giuliani? Was he encouraged? Was he discouraged? Was he exhausted? How did you see him?

**McADAMS:** The great thing about Ron Paul is that nothing fazes him. He would have just had some amazing performance like with Giuliani or something of that nature. An amazing whirlwind tour, and then he'd walk into the office as if nothing had happened. He is not fazed by these things. He really isn't unless he's just great at not showing it, but we never really noticed anything. We didn't see him very much during the real heat of the campaigns, but when he came in it was the same old thing. You know, the same old exercise routine, the same old lunch, and it was amazing.

**WOODS:** What was it like working for him in general? Are there any anecdotes that you can share that illustrate the general sense of what it was like?

**McADAMS:** I think the thing about him was that he was someone unfazed and he never took it personally, and how much we all learned from him as much as we couldn't stand this member or that. It could never be a personal attack. It could never be personal. Always keep to the issues, and even people who personally got under his craw, it was never personal with him. It was about the issues.

**WOODS:** I don't know how he did that.

**McADAMS** It was so great.

**WOODS:** Oh, yeah?

**McADAMS:** He has such a dry sense of humor. I won't mention any names, but there was one member who had treated Dr. Paul very, very badly over the years, and I think he was probably jealous of Dr. Paul's earned reputation as a constitutionalist. But you know how everyone is so artificially friendly on the Hill—*"Hello, my great friend," so and so, whom I just stabbed in the back.* This gentleman, this member, who's a pretty high-ranking member, wrote one of these phony baloney notes. "Thank you for voting on my amendment" of such and such. Dr. Paul put it in my inbox with a little handwritten note, "He's our friend." That's just his style.

**WOODS:** There's a feature on the RonPaulInstitute.org website called Neocon Watch. That's just beautiful, first of all. I love the idea of that. Tell our listeners: who exactly are the neocons? Where do they come from? Is this just a term of derision we throw at people we don't like, or does it have a real meaning?

**McADAMS:** There's a danger of being too general with that, and we take some liberties, because I think the humanitarian interventionists on the left exhibit a lot of the traits of the neocons. As we know, Dr. Paul delivered an historic speech on the neocons a few years back called "Neoconned," and I think he spelled it out in great detail, their characteristics so accurately that one of them kept calling us and demanding that he retract his speech. He obviously hit a nerve. That's what we wanted to do with this feature, is shine the light back on them, because they can't stand it. They love to attack the rest of us who try to be sane, but they can't stand it when anyone puts the words back to them.

My interest in the neocons actually came well before I went to work for Dr. Paul. I was working in Europe at the time with a human rights group, and the neocons, as you know, had infiltrated—or from the beginning, things like the National Endowment for Democracy, which was really kind of a Reagan sop to the neocons. Here, you guys can have this thing where you can do in the open what the CIA does in secret. But the neocons, with their Trotskyite worldview, believe in a permanent revolution, so the idea of democratization or the spreading worldwide of their version of democracy by force was so attractive to that sort of mentality. It's the mentality of the person who wants to force everyone else to do what they think you should do. They were infiltrated into the NED, which is paid for by our tax dollars, and has been since its creation in 1985 or 1983 I believe. It has all these sister groups, the International Republican Institute, the National Democratic Institute, the labor unions get their cut of it.

What they do is they go overseas, and they give money to one particular party or another. They'll give money to a newspaper, and they'll call it an "independent newspaper." That's what they were doing in Albania during the period when I spent a lot of time there, during the coup in 1996. These people were the neocons. You can argue that what they did during the Cold War had a purpose, though I won't grant them that. Certainly at the end of the Cold War, when this great evil of communism was defeated, things



like the National Endowment for Democracy and indeed NATO should have all gone by the wayside. They should have done what the Warsaw Pact did. But in the case of NED and the neocons, they ramped it up and doubled down.

**WOODS:** It's just as Milton Friedman said, speaking of the domestic sphere, "There's nothing so permanent as a temporary government program." That seems to be at least as true in foreign affairs.

**McADAMS:** Exactly, and some poor attorney somewhere in the middle of the country who wouldn't want a junket to rewrite Albania's constitution? So you get on board with one of these different law groups that get money from NED, and you fly over there and have an exotic couple of weeks. Maybe you'll take a vacation in some storied place as you're slaving away rewriting their constitution, and it gives you a sense that you are bigger than you really are. You're larger and more important than you really are, and this is what they do.

**WOODS:** We've got about two minutes left. I want you to take that time to describe to people what exactly you're doing at the Ron Paul Institute, what Dr. Paul's doing, and what you hope ultimately will come out of it. In ten years, what do you want to see the Ron Paul Institute doing and what's it doing now?

**McADAMS:** Philosophically what I would like to do is to establish the idea that noninterventionism is a legitimate foreign-policy perspective. We have the realists, and we have the neoconservatives and all these different schools, but I want to show it is a rational view of the world to leave people alone. Dr. Paul, in fact, recently described himself not with the word libertarian but as noninterventionist across the board, so that's why we would like to raise that idea. We want to do it through education. We want to help train the next generation of people writing about foreign affairs and about politics. That's why next year we will have a summer school for young college students to meet like-minded people and to hear lectures from our very distinguished board of advisors and academic advisors. We have terrific people like Judge Napolitano on our board of advisors. We have Dennis Kucinich. It's a right-left board, and it's a grand coalition against war and in favor of civil liberties. We want to help the next generation. We want to encourage them. We want to also give the tools to people who don't believe the mainstream media. They believe there's something wrong with it. That's why I was so encouraged when the Syria crisis hit that our readership just skyrocketed, so that's a great feeling. People are looking for something different, and that's what we want to provide them.

**WOODS:** Daniel, it is very, very important work you're doing.

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# Guns 101

## Guest: Larry Pratt

### October 1

*Larry Pratt is executive director of Gun Owners of America (gunowners.org).*

**WOODS:** In terms of the average person, not somebody who's living in the middle of the wilderness, but the average person in the average house, what kind of a gun does such a person need?

**PRATT:** If you're in a house, you probably don't want the long gun, because that might bump into things if you have to move it around. Most people settle for some kind of a handgun. Then you're really talking about what is comfortable for the person holding a particular gun. What can they handle when the gun goes off? And the best way to do that is to go to a gun store that's attached to a range. Hopefully they might have a few firearms available for testing, and you can find out what best suites you.

**WOODS:** Do you also recommend having a gun safe, or how do you recommend keeping it safe?

**PRATT:** I recommend keeping the guns away from inquiring children, but the guns that I have available for self-defense are readily available away from children. They're not in a safe, which is in the basement, and sometimes I can hardly remember the combination. I certainly would not be able to remember if I were under attack, so my self-defense guns ain't in the safe. Anybody listening? I tell you the truth.

**WOODS:** That's good to know. As a matter of fact, as long as we're on this, let's go on a little tangent for a minute: what about that statistic we used to hear about people being more likely to wind up injuring somebody in their household than use it in self-defense, so it's counterproductive anyway. Is that even true, and what's the response to that?

**PRATT:** It's not true. It's a study. Mainly they point to a study done by a Dr. Kellermann, and he defined self-defense as "having killed the attacker." Well, give me a break. From all the available data, self-defense uses of firearms almost never result in killing the attacker. Once the bad guy sees that, "Uh oh, I hadn't figured on this," he leaves. In fact, one of our members told me that he was the subject of an attempted carjacking, and he reached down by his right hip, pulled up his handgun, and when the guy saw that handgun, he said, "Oops, wrong car."



**WOODS:** Fair enough.

**PRATT:** That's the right measure of self-defense.

**WOODS:** I want to get back into my Guns 101. A lot of times people use terms that they assume everybody just knows, but everybody doesn't necessarily know them. I want to give you three terms, and you tell us what they mean. We've got "automatic weapons," "semiautomatic weapons," and "assault weapons." Maybe there's some overlap here, but can you just describe what these things mean?

**PRATT:** One and three are the same. An assault weapon, a machine gun, is almost always one that has a selector switch on it, so you can choose whether to fire one bullet with one pull of the trigger, which is actually a semi-automatic function, or most machine guns—assault weapons—will have a middle position where you can fire a burst of generally three rounds. Or you can go full auto, so the gun keeps firing until you pull your finger off the trigger or until you run out of bullets, which will happen very quickly at that rate of fire. Most gun owners for a self-defense situation would not choose a machine gun or an assault weapon if they're firing full auto. A 30-round magazine could be empty within a couple or three seconds.

**WOODS:** When the media is talking about assault weapons, though, are they always being careful to distinguish between automatic and semiautomatic?

**PRATT:** To ask the question is to answer it. Of course the media are not. They are trying to make it sound as if the average American who has an AK-47 is somehow a Muslim terrorist attacking a busload of Jewish schoolchildren. The truth of the matter is that the so-called assault weapon—the AK-47, the AR-15—only fires one round every time you pull the trigger. If you're going to get it to go bump, bump, bump, you've got to pull the trigger.

**WOODS:** What makes this semiautomatic?

**PRATT:** The way the gun is designed in its internal workings, it cannot fire fully automatically. You must reengage the trigger. You must pull the trigger again in that semiautomatic to get another round of fire.

**WOODS:** How about this kind of objection: "I have no problem if somebody really feels the need to have a handgun in the house, but surely no American needs an AK-47. The gun people like Larry Pratt are being completely unreasonable and maximalist in their demands. Are we going to have people driving down the street in their own tanks?" What do you say to the "an average American doesn't need a weapon like this" argument?

**PRATT:** Anybody who talks that way has no understanding of a life-threatening situation and how it can come about and what it might be like. The Korean merchants who were defending their businesses in Los Angeles during the riots in the 1990s absolutely needed large magazines with their semiautomatic rifles, because they were fending off mobs of people. This was not Marquess of Queensberry. This was

a horrible anarchistic situation, and they were standing in front or on top of their businesses with these rifles, with these large magazines. It's very interesting that where they were, those particular neighborhoods were not torched. Only where stores were undefended.

**WOODS:** I want to say something about the legislative prospects for gun control. It seems to me that even though you do see the Obama people talking about the use of an executive order, gun-control measures in the legislative branch, which is where serious gun-control measures would have to be introduced, are simply not popular. Weren't there a couple of legislators in Colorado who just got voted out of office over this?

**PRATT:** That was delicious. The president of the Colorado state senate and the committee chairman, Angela Giron, who had rammed through the ban on many firearms, magazines, over a certain size, and I don't know what else, were defeated on a recall election. Chairman Giron had afforded the opposition something like 50 or 55 minutes, and that was it. Whereas anytime before in the Colorado senate, if enough people were interested in saying something for or against a measure, they had the time. If it took four days, there were times when they had gone that long hearing witnesses.

So the issues on the ballot in Colorado—Republicans, I hope you're listening—were two things. Guns and arrogance, and that's what sank those two legislators. Giron from Pueblo, which is a kind of artsy-craftsy, neat-looking place but über liberal, voted 12 points against Miss Giron. She got smashed by Democrat voters, the so-called Reagan Democrats would be the best explanation, who apparently come out of hibernation when they hear a Republican convincingly sound like a conservative. Then they're all in. Memo to the GOP.

**WOODS:** Doesn't it seem, though, that Harry Reid's heart wasn't really in it when dealing with gun issues? I think they know these issues are a loser. They might as well expend their political capital on something else. What would you say to a cynical person who would accuse a group like Gun Owners of America or even some lighter gun group like the National Rifle Association of thriving on panicking the population into thinking that gun control's right around the corner when legislatively it doesn't seem to stand a chance? Would you answer that it's precisely these groups exist that these things don't have a chance?

**PRATT:** During the fight to kill the Toomey-Manchin bill that would have expanded to virtually all sales—the so-called instant background check—the NRA said nothing. It turned out Manchin said that they were actually undercover working for the measure. They had written the original background check, and now they were trying to enlarge it. The Citizens Committee for the Right to Keep and Bear Arms openly endorsed it, so Gun Owners of America was pretty much alone up on the Hill fighting this thing. We were able to convince—before the NSA scandal erupted, this is mid-April—the Congress, the Senate, that the government can't be trusted.

As it turns out, after the NSA it's real easy to explain this. If they want to listen in on what Aunt Susie's talking about with Mary, don't you think they want to have a list of who bought a gun and what kind of

gun and where that person lives? I mean, duh. We were able to make that case even before NSA. Now that the NSA scandal has broken out into public attention, I think we've got them. Now the real issue is, "Okay, Congress, when are you going to get rid of the background check altogether?" I think out of like 11 million background checks they've brought cases against not even 40 people. Now that's really a useful crime-fighting tool, wouldn't you say?

**WOODS:** That answers what I was going to say, which is I think the average person who has no ideological axe to grind one way or the other might think, look, there are interests to balance on both sides. We have liberty and we have safety, and you have to have a little bit of both. But if 40 out of 11 million is the real number, it may as well be zero. That's completely negligible.

**PRATT:** Yeah, because they don't win all the prosecutions they bring, either, so you are approaching zero. Mathematically it's really a null figure. This is not a crime-fighting tool. Cops know that. The only reason the government does it is that they are nosy. You know what? Instead of them knowing what kind of guns we have, we ought to know which one of them has guns and where their guns are being kept. I think that's more important for us to know.

**WOODS:** Did you happen to hear about this incident several months ago in Concord, New Hampshire where the local law enforcement was applying for a federal grant for a BearCat, because they said, "We're besieged by the potential for domestic terrorism because of the Occupy movement and because of the Free State Project." Whatever you want to say about either one of those groups, they don't strike me as the types who are going to commit acts of violence. Yet this application went through.

**PRATT:** The only violent act I've seen of the Occupy movement was to poop on a cop car.

**WOODS:** Presumably you can deal with that with a spray bottle and some paper towels.

**PRATT:** It's not a life-threatening activity. That's for sure. I mean you've got to be a lowlife to do something like that, but that's not life threatening. Come on. Take a breath.

**WOODS:** Isn't it interesting that on the one hand we have all kinds of antigun propaganda on TV, but very, very little—at least in popular culture or on the news channels—about the shocking level of militarization of the local police forces?

**PRATT:** That is something that has been studied by some, and it's a very concerning matter. We've got police departments that have militarized. Let me make a comparison. When I was in the Virginia legislature in the early 1980s, I decided that it would be a good idea to go around and spend part of a day with a cop. I got in this cruiser, and we rode around. He did various things, and he came to a nice suburban house here in northern Virginia where Gun Owners of America lobbies the Congress, and he said, "Just stay here in the car." He went up to the door. It was around 10:00 AM. Evidently the young man had just gotten up. He certainly looked groggy. The cop said a few words, went into the house, the door closed. I'm sitting here waiting and out comes the young man. I think he was cuffed. But anyway,

he put him in the back seat of the car, took him into the cop shop, and booked him on a drug charge.

One cop. I don't even recall that he had his hand particularly close to the holster. I mean, he had his right hand over the holster on his right hip, and I'm sure he was prepared mentally. But he wasn't stereotypical about it. Last year, in the county south of where Gun Owners of America's located, still in very suburban Virginia outside of Washington D.C., there's this guy sitting on his front porch, and I think he'd been doing numbers. Of course, the government doesn't like competition with their lottery, so they were going to arrest him. The cops came up on the guy's house, guns out—this is for a numbers charge, right?—and one of the cops criminally had his finger on the trigger, boom, and he kills the guy. What a difference in 30 years.

**WOODS:** Wow. The thing is that cases like that don't become the national fixation of the country the way we might say more politically correct cases turn out to be.

**PRATT:** That's right. That's exactly right.

**WOODS:** We've got ten minutes, and I feel like I really want to do as thorough a job here as I can, so I guess we have to shift gears and talk a little bit about how you deal with the most common objection on the issue of guns. It involves comparisons between countries, and they say, "Look, this other country has very strict gun laws, and everybody's happy. There are no murders, and here we are in the U.S. and it's like Yosemite Sam in the old West." What's the customary response to that?

**PRATT:** To start with, the old West was the wild West only on the screen. In reality, because virtually everybody was armed, the old West, as you more properly put it, was quite a place under control, peaceful. The shootout at the O.K. Corral was very atypical. Let's go over to Britain, because you pointed to them. In Britain they do have a very low murder rate. But in Fairfax County, Virginia, where Gun Owners of America is located, where people can obtain a concealed-carry permit for a firearm rather easily, and where you've got to assume that there's a whole bunch of folks here in Fairfax County that are armed, we have a murder rate at one per 100,000. Whereas over in peaceful old England, it's 1.7 per 100,000, and their violent crime rate, apart from murder, which admittedly is very low—their violent crime rate ranks them as the fourth most violent country the world after Jamaica, El Salvador, and Honduras. Boy, how's that gun control stuff working out for you now, old Great Brit?

**WOODS:** You've made arguments like this on TV and of course, people are not prepared for this, because all they know are the talking points on the other side. Can you tell us a little something about your experiences with Piers Morgan, because I don't think a lot of people knew who you were up to then. If they were plugged into the D.C. scene they did, but everybody knew who you were after Piers Morgan. You should be thanking that guy. I'm sure you were.

**PRATT:** Privately, I have, but I really prefer not to rub it in his face, because I'd like to have him bring me on again. It was so good for membership. Our server crashed three times following his really over-the-top behavior during the interview. "You are a stupid man," he said. When I went on Alan Colmes'

radio show a week or so later, Alan off the air said to me, “Larry, you know I agree with everything Piers was saying, but I want to tell you, I was embarrassed.”

**WOODS:** Good.

**PRATT:** So any time one of our opponents wants to act in such a surly manner, fine. I was 100 miles away from him. He was in no danger of me pulling out a piece and popping him, so if he wants to act like that, that’s great. During the interview I began to get a little irritated, to say the least, about his behavior, and by the grace of God, it occurred to me, “Hey, hang onto yourself, bud. This guy’s doing great all by himself. You don’t need to help him. He’s got it all taken care of.”

**WOODS:** Did you guys get a bump up in website visits or phone calls or contacts after that? How could you not?

**PRATT:** It was amazing. At one point there were, I think, three of the guys using all the available spaces in the office for live media interviews. I had to go out into the parking lot to do a TV interview. That happened twice. It was intense, so Piers Morgan, I hope you’re not listening, but if you are we actually kind of like you.

**WOODS:** I have no doubt. When I had you as a guest on the Peter Schiff show, I gave you an opportunity to explain to people the whole matter of the National Rifle Association and Gun Owners of America, and I think people are curious about this. And I was thinking that maybe you’d be a little shy about talking about it, and you weren’t shy at all. Because, of course, the first principle of marketing is differentiation, and you were quite eager to differentiate yourselves. So tell us the difference between somebody going to [GunOwners.org](http://GunOwners.org), visiting Gun Owners of America, and somebody joining the National Rifle Association. What difference is he going to notice, and what are the origins of those differences?

**PRATT:** Well, as I mentioned earlier, the NRA was supporting the Toomey Gun Control bill, the expansion of the background check, and they were doing it under the radar. But when Senator Manchin thanked them for their support, we were very publically opposing. It all comes about, I think, as you were asking how we were founded. The NRA was founded 130 some years ago by Union officers following the War Between the States who were appalled at what lousy shots most of the recruits were, and they wanted to improve that. So they developed a civilian marksmanship program, which actually became part of the Department of the Army. Guns were made available at very low prices to members of the public. They did a lot of target practice for people, training, good use of firearms, so they were a handmaiden to the government.

Then you fast forward to the mid 1970s, when Gun Owners of America was formed. We were formed by a state senator who was appalled that the NRA had been playing footsie with the government during the time that the 1968 Gun Control Act had been put down our throat. We were set up to oppose the government, so it’s been very difficult. I think they’re getting better at it, frankly, but it’s been very difficult for the NRA to understand that they need to have an adversarial posture regarding the government

that for so long was their bud. They were kind of joined at the hip, whereas we were formed in a period under attack. We were organized to fight back, so that's always been our mentality: to roll back even things that are already on the books.

I normally hear a lot of people from the NRA saying, "Well, if we would just enforce the gun laws that we have...." No, the gun laws we have included ban on guns in the District of Colombia. How did that work out? I would say even today, with their very restrictive gun laws, not a total ban, they've got 17.5 murders per 100,000 compared to Fairfax County, where it's guns galore at one murder per 100,000.

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# Murphy Answers Questions I

## Guest: Robert P. Murphy

### October 2

*Bob Murphy holds a Ph.D. in economics from New York University. He is the author of Chaos Theory, The Politically Incorrect Guide to Capitalism, The Politically Incorrect Guide to the Great Depression and the New Deal, and Lessons for the Young Economist. He blogs at [consultingbyrpm.com/blog](http://consultingbyrpm.com/blog).*

**WOODS:** There will be plenty of stuff in the news that we'll want to discuss on this program, but for this first time, I just put out a general request for questions to listeners. I had them Tweet me questions [TW note: I am [@ThomasEWoods](https://twitter.com/ThomasEWoods) on Twitter]. I have a thread on [my website](#). I haven't even looked at the Facebook thread. I'm too afraid, because we've got so many now. I just want to do one after the other. They won't necessarily have anything to do with each other. They're things people are curious about, and they're of varying levels of difficulty? So are you ready?

**MURPHY:** I'm ready.

**WOODS:** Let's start off with a super-basic one: "I hear this term 'monetizing the debt' all the time, but I understand it only in a very vague way."

**MURPHY:** The classic definition of it means that the government wants to spend more than it can take in in tax receipts, and it wants to issue bonds to be able to run a deficit to cover its spending shortfall. But no one wants to lend money to the government, either, so the government says, I know, we have a printing press, so we'll print the money. That's the way we'll cover it. So we'll monetize the debt that way. Or in an alternative way, if we have all these outstanding bonds, we can't possibly raise taxes enough to pay what we owe people from the money we've borrowed in the past. So the way we'll pay them off is we'll just print that money, and that's the way we'll come up with the funds with which to pay off the previous bondholders. Everybody can agree, "Oh yeah, if the reason the government is printing money is that it needs to spend more, it's in a budget pinch, then clearly that's the route of the collapse of the currency. That's what happened in historical examples of hyperinflations."

In our time, many Austrians and others who are worried about what Bernanke has been doing, they're saying, hey, isn't this monetizing the debt? Because they're creating money with which to buy Treasuries. Apologists for the regime will say no, no, no. See, those are two separate things. On the one hand



you've got the Treasury running a deficit for fiscal reasons, and they could borrow the money from the rest of the world if they wanted to, because everyone wants to lend money to the government. And then Bernanke and the other people in the Federal Open Market Committee, they're deciding completely independently how much government debt they want to absorb for reasons of quantitative easing. So they're completely separate things. It's not that the government wanted to run a trillion-dollar deficit, and that's why the Fed's buying so much debt. So that's where the crux of it is, and if you're like me, you're going to say no, the two *are* related, and there's a reason Bernanke is buying so much debt. They are right now monetizing the debt and thus all those negative consequences follow.

**WOODS:** All right, Bob, let's move on to the next one. Somebody asks, "We sometimes hear in our circles that the Fed enriches the rich at the expense of the poor. Is that an overstatement, and if it's not, if that really is true, can you describe exactly what is the mechanism by which wealth is transferred from the less politically well-connected to the more politically well-connected via the Fed?"

**MURPHY:** Sure. I think it's crystal clear that the Fed is enriching the politically well connected at the expense of everybody else, so it doesn't line up perfectly to say rich versus poor. But certainly the people that are benefiting I think would happen to be fairly wealthy compared to the average. The mechanism is pretty simple. The Fed creates new money. We all agree on that. Then how does the money get into the economy? It's not because Ben Bernanke gets in a helicopter and drops it around. It's that they buy specific assets, and it would certainly matter to your listeners if Bernanke said, "You know what? Instead of our spending \$85 billion a month on Treasuries and mortgage-backed securities, we're going to buy houses owned by listeners of the Tom Woods radio program, and we'll pay whatever we have to to induce them to be willing to sell it to us."

You could sell your house for \$1 million to the Federal Reserve. They would put your house on their balance sheet and give you a million dollars in electronic reserves, a check that you go and deposit in your bank, and now you have \$1 million in your checking account. That certainly would help you. And yeah it's true: in the long run prices would adjust, blah, blah, blah, and there are rational expectations. But you don't get around the fact that if the Fed's creating new money, and is going to give it to people in voluntary transactions, right? It's not that the Fed is forcing the holders of mortgage-backed securities to hand it over to them at gunpoint. No, they're entering the market with this newly printed money and getting people to voluntarily turn it over.

Just one last one: everybody—even the proponents of what Bernanke did—agrees that they bailed out the financial sector, and that had the Fed not intervened, all those investment banks would have gone down. That was the whole reason for the alleged bailout. So how can you possibly say that he's not helping them if everyone agrees the whole point of this was to prevent them from collapsing? So clearly it was not the average person who would have been really hurt by that. It was mostly the people who made these really bad bets on mortgages and related securities in the housing-bubble years.

**WOODS:** Bob, I think that's a really good transition into another question. Somebody asks, "In the economic crisis of 2008, banks lost millions to so-called bets, and the government felt the need to inject



capital into banks to ‘save the economy.’ Who actually won these bets? And if that money was still in the economy, just out of the hands of the original banks, why is that a problem?”

**MURPHY:** That’s a good question. First of all, it’s true that it’s not that money disappears when someone makes a bad investment. The quantity of dollars—or whatever specific measure you’re using—that money doesn’t literally disappear just because someone makes a bad investment. So that’s one thing to get straight before we think more about it. But having said that, we shouldn’t commit the *opposite* mistake. Even though the total quantity of dollars in the economy isn’t directly affected by whether investments are made wisely or foolishly, that truism does *not* mean it’s all a zero-sum game; we shouldn’t be thinking, “Oh, it doesn’t matter whether people make good forecasts about the future and make wise investments or not. It’s all just a wash because if one person wins another person loses.” You do want to avoid that mentality. So it certainly is true that, for example, we in the Austrian tradition think artificially low interest rates distort the price mechanism and reduce the ability of prices to help coordinate activity. And so that leads entrepreneurs to commit more errors or a cluster of errors compared to what we’d think the free-market baseline would be.

It’s true that you can have, in general, more mistakes being made than not. It’s not that the thing’s perfectly washed. But I do agree with the person who wrote the question. What you are supposed to do in a market economy, if you have a bunch of people making bad investment decisions, you want them not to have access to capital. That’s how the market works: when people make a bunch of mistakes, they have less influence over the future allocation of capital, and it’s favored to the ones who made the right decisions. That’s the very process that the Fed and TARP and so forth tried to circumvent and say no, no. We want to do a reboot.

**WOODS:** We have a quick question here about the 2013 long-term budget outlook published by the Congressional Budget Office. It cites technological advancement as one of the primary reasons for increased health-care costs. And the question is, “Is there any other industry that even claims that technological advance increases their cost? Doesn’t technology always decrease cost?”

I don’t want to take away your opportunity to answer, but my own thought on this is that health care happens to be one of the sectors that government is most involved in. So it may not exactly be the biggest coincidence in the history of the world that healthcare costs are rising substantially.

But there’s more to be said. In some cases, when we’re dealing with a technological advance in medicine, it’s not as if in the past we had a really clunky and expensive way to treat you, and now thanks to technology we have a cheaper way. Couldn’t it be that before we had *no way to treat you whatsoever*, and now, thanks to this technology, we have a very expensive way to treat you, but at least we have a way to treat you? In other words, could there be a more benign explanation for the relationship between technology and rising health-care costs?

**MURPHY:** Yeah, everything you just said is fantastic. Let me just paraphrase very succinctly, but I’m just making the same points you did there. I think we all agree that the reason health-care costs keep

rising, or prices for given medical services, are rising so much more compared to other categories, is primarily government involvement, and if you didn't have the government involved then I do think basic standard treatment and so forth would get cheaper over time. But you also are right that what you expect technological improvements to make cheaper would be the delivery of some quantified level of medical care. So you're right they didn't spend much on healthcare in ancient Rome probably, but people's life expectancy was also a lot lower.

Now part of what's happening is that they've come up with ways if somebody would have been dead at age 68 a few decades ago that person might end up living to 85 or 90. But they spend a lot on medical care in the last few years of their lives. Those things, too. This is where this whole issue of death panels and stuff comes in. Yeah, you get the issues where it's not clear: does it make sense to spend another \$100,000 to keep this guy who's 85 living to 87? And that's the kind of decision that it's not up to you or me to make. It's up to that person and his family or whoever the heirs would be, if they want to make decisions, come up with a living will. The more the government takes over the health-care sector, the more government officials are going to have to make those decisions. Even if they weren't evil. If you're in charge of scarce resources, you've got to make decisions in certain places. That's the death panel thing for which everyone ridiculed Sarah Palin. That's clearly going to happen if the government keeps taking over more and more of the health-care sector.

**WOODS:** Bob, I've had you on the Peter Schiff Show many times. You know that as an interviewer I don't just come in with a list of questions that I just ask you one after the other. It flows like a conversation. But today it really is a list of questions.

I'm going to jump immediately to something totally different, because I want people to feel like they got their questions answered by us. Sometimes we hear this claim that government spending has a multiplier effect. The government spends \$100 million on something, and the recipient of that spends it on hamburgers, etc., and this stimulates economic activity.

The person wants to know two things. Number one, surely there's something kind of fanciful and magical about this, and this can't be quite right that all we need to do is have the government spend some money and just the movement of that money from one hand to another yields us prosperity. There's got to be something wrong with the thinking, so what is it? Secondly, wouldn't taxation just as readily have a negative multiplier effect? In this case you take money from the hamburger guy. Now he has less money to spend on magazines or whatever. How do you sort all this out for the layman?

**MURPHY:** Great question. First, empirically, if you had no preconceptions about economic theory and how the world works, and you just wanted to look at what the numbers tell us, they have done econometric studies, and the estimated multipliers are all over the map, ranging from ones that are negative to highly positive ones. Not surprisingly, the people who tend to be right-wingers favor the studies that show a really low impact. Then the people who tend to be real interventionists favor the studies that show bigger ones. Part of what happens is that the Keynesians, the pro-interventionists, pro-high multiplier people, they'll say, oh, well, the studies that come up with a low figure include periods where the

economy was already at full employment. So of course that's where you're going to see crowding out. They want to just look at an economy that's already depressed, where the government comes in and does a spending multiplier.

But even there you run into trouble. It was hilarious: who was it? I think it was Barro, or some mainstream guy, but a big name. He looked at World War II and said, okay, let's look at the multiplier there, and he found that there wasn't one or a low one. Then Paul Krugman bit his head off, saying there was wartime rationing, so of course you wouldn't see a multiplier there. What an idiot this guy is!

Even with the Obama stimulus, they have *ex post* indicated, "See, the multiplier is just what we said, because if we hadn't spent that money, the economy would have been much worse. Instead, we staved off the second Great Depression." When as we all know, the economic baseline suddenly got worse once the Obama stimulus package kicked in. That's why the Romer-Bernstein forecasts of unemployment were so laughably wrong.

My point is that with all this stuff *even on their own terms* we could easily make our case just relying on the measured outcomes, and say, "What are you talking about? Huge government deficits always go hand in and with awful economies." Keynesians then have to engage in speculation and say, "Well, they would have been even worse had we not intervened."

There are resources. If the government spends money, those resources get diverted into political ends and not what the market wants to do with them.

If the Keynesians ask what happens if there are idle resources, we ought to reply, "Why are they idle?" There's a reason that the owners in a market are holding them off if it's after an unsustainable bubble, and now there's a crash. It takes time for the economy, to speak metaphorically, to recalculate and figure out where these resources need to go. And the government doesn't make us richer by short-circuiting that process and saying, "Oh, I know where they need to go. They need to go build some more highways or build some bridges or go build some more wind turbines that don't make economic sense." So no, both in theory and empirically the case for a high government multiplier to me is bogus.

**WOODS:** Let's shift gears to something directly in your wheelhouse. I've been waiting for years to use that word, by the way. So here it is: "There seems to be a decent amount of chatter in some circles in regard to a forthcoming energy boom in the U.S., and an associated manufacturing renaissance. Since Dr. Murphy is engaged in energy issues and policies, it would be great to hear his take on the subject. Is it all just hype, or is there a possibility that there will be some meaningful economic growth?" Does this ring any bells with you, Bob?

**MURPHY:** Yeah, it's definitely true. It really is amazing the innovation in the natural gas sector from hydraulic fracturing—what people call fracking—and horizontal drilling. I don't have the numbers at the tip of my fingers here, but the ability of people to deliver natural gas has become much easier, and prices have fallen. What's funny is that even the federal government just issued a Climate Action Report,

and it's part of the UN Convention on Climate Change. Even the government's own report admits that emissions dropped significantly from 2005 to 2011. The two reasons were (1) the recession; the economy in general is not as active, and so therefore total greenhouse gas emissions are lower, but also (2) the boom in natural gas. On its own, without government prodding, the electricity-generation sector has switched from coal-fired plants over to natural gas just because it's cheaper. So, yeah, it is certainly true; that's not hype. And also, if you look at the states with the lowest unemployment rates, there are states with natural gas booms and so forth and shale development and very low unemployment rates, the lowest in the country.

So that stuff is all true. And just more generally, I think if people look at the amount of fossil fuel resources in the United States and then more broadly North America, there's enough there to power current usage for centuries, depending on which fuel type you're looking at. It's this idea that I certainly was taught, and probably many of your listeners: "Oh my gosh, we're running out of energy in the U.S., and we have to conserve. You need the government to implement all these controls and wean ourselves off these scarce fuels, because we're going to run out next week." It's a complete lie, and it's just another excuse for the government to come in and regulate everything. As usual, the way to bring down prices in the energy sector is get the government out of the way and let the entrepreneurs develop everything.

**WOODS:** Now I want to shift away from one area in which you're an expert to another area, and that's the Great Depression. Of course, after the experience of Ben Bernanke, we all cower and cringe when we hear that somebody's an expert on the Great Depression, but we're going to make an exception in your case. And I strongly recommend Bob's book *The Politically Incorrect Guide to the Great Depression and the New Deal*. If you haven't read a book on this subject this is the one, because you'll get through it very quickly. He explains it in a way that you can grasp immediately.

Somebody wants to know: suppose you're dealing with the man on the street. The man on the street probably doesn't have a super-elaborate theory as to what caused the Great Depression. He may not really know anything about it at all except some vague sense that probably unbridled capitalism had something to do with it. But he probably couldn't flush that out if he was asked to. Suppose now you're just dealing with the man on the street, and you want to give a brief explanation. You're not going to be able to get the Austrian Business Cycle Theory out. How would you try to explain it to the average person as briefly as possible?

**MURPHY:** First, I would say the conventional story doesn't make any sense. The conventional story is that there was this big stock market crash, and the reason that turned into the decade-long Great Depression is that Herbert Hoover sat back and did nothing. But wait a minute. Even according to the conventional textbooks, everybody before Herbert Hoover did nothing also. It wasn't until FDR came in with all the wise things of the New Deal and the SEC and Social Security and all that other stuff that we then made ourselves safe from another depression, but there were plenty of financial panics and stock market crashes before 1929, so even on its own terms, the official story makes no sense.

It's like if an airplane crashes and 100 people die, and the FAA comes out and says, okay, we've

investigated, and the reason is gravity. Well, okay, but that doesn't explain why that plane crashed and not others. Same thing here. So the conventional story makes no sense. What would make sense, though, is if Herbert Hoover did something different from what all his predecessors did. And then you can quote from his own memoirs explaining the things that he did, and those quotes are in my book, or in Rothbard's book, or on the Internet there's plenty of articles debunking the Herbert Hoover myth that says he was a do-nothing president. You can go to the official website of the government's spending statistics and see what happened with federal spending and the deficit and so on. They increased under Herbert Hoover. The conventional story is the opposite of what happened, so what I try to do when I'm talking to a regular crowd is to get them to realize that the conventional story makes no sense, and give them some facts that are irrefutable, because they're coming from the government's own website. It can't be that I'm making these numbers up. I think that's a good way to open up that Herbert Hoover clearly did something different, and what he did that was different is that he actually intervened.

**WOODS:** Then that opens their minds to consider alternative possibilities. Now you've softened them up, and the next time you talk to them they're ready to go.

**MURPHY:** Yeah, exactly.

**WOODS:** Somebody asks, "I've heard it said that the Dow and the price of gold are going to meet. Why would this occur, and what would it mean?"

**MURPHY:** There are people who are really into trading gold—"goldbugs," as they call them. There are theories that there's this relationship, and they can diverge for a while, but that ultimately the fundamental forces kick in. In our case, what would happen if the economy is fundamentally unsustainable right now, and there's been a lot of inflation that Bernanke's pumped into the system that hasn't yet quite manifested itself? What would you expect to happen over the next decade or so? You'd expect there to be a stock market crash, and the price of gold would rise above its current level.

In other words, if people are thinking, "Oh my gosh, I'd better get gold, because all of all the crazy stuff Bernanke's doing," implicitly they're thinking there's at least a strong possibility that the price of gold measured in dollars is going to go up in the near future, and that also if you're really worried about the stock market and think no, this is just all propped up by Bernanke's money pumping, implicitly what you're saying is that the stock market's poised for a crash. I'm just showing why they would move in the directions that would have to happen, but whether there's some natural reason they ought to meet, people just look empirically and can make that claim that they do it, and they diverge and come back. I'm not going to say that that's a law of nature or something, but I have seen that claim being made.

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# States' Rights and the Founding

## Guest: Kevin Gutzman

### October 4

*Kevin Gutzman is a professor of history at Western Connecticut State University, and the author of The Politically Incorrect Guide to the Constitution, James Madison and the Making of America, Virginia's American Revolution, and, with Tom Woods, Who Killed the Constitution? The Fate of American Liberty from World War I to Barack Obama.*

**WOODS:** Your most academic book is *Virginia's American Revolution*, and I think people who aren't attuned to the issues at stake might not realize the significance of your findings there. You are very knowledgeable about Virginia, particularly around the time of the ratifying convention, but including the whole period from the latter part of the eighteenth century into the early nineteenth century. I want to start there, because you happened upon some findings and research that seem to run counter to what you would hear from, say, a Straussian. Let's first explain: what is a Straussian? What does a Straussian say about the founding period of American history, and what does Kevin Gutzman say?

**GUTZMAN:** Oh, boy.

**WOODS:** We can do that for the rest of the show if you want.

**GUTZMAN:** There was a German expatriate philosopher named Leo Strauss who carved out a small niche on the Right in academia. There are people who consider themselves Straussians who follow his line of thinking and writing about some of the great philosophical figures like Plato and Socrates and Machiavelli and so on. But the ones who were of more immediate interest to American historians are what are called the West Coast Straussians, who are followers—really kind of a cult—of one of Strauss's students, a fellow named Harry Jaffa. And Jaffa is essentially an idolater of Abraham Lincoln. He said Lincoln was the ultimate Aristotelian. That he was this wonderful philosophical statesman who penetrated to the essence of republican self-government in a way that nobody else ever had. So there's an attempt by Jaffa, and following him various lesser and far lesser lights, to cast the entire American revolutionary experience into such a way as to make Lincoln's statesmanship a fulfillment of it.

So what that entails often is downplaying or just ignoring contrary evidence, and they also are prone to personal attacks. Most famously in the instance when the Reagan Administration contemplated elevating



Mel Bradford to a position at the head of the National Endowment for the Arts. Straussians were central to killing that effort.

Essentially what they've said is that the Union of the states preexisted the Revolution. It started really at least as early as 1774 and perhaps earlier than that, and that thereby, one American people made the Revolution. One American people established its independence instead of 13 discrete North American former colonies. And that these people set up their new nation on the basis of the single philosophical proposition described by the Continental Congress in the words of Thomas Jefferson and Benjamin Franklin, the second paragraph of the Declaration of Independence. Anything that happens in the American government or politics that's inconsistent with the second paragraph of the Declaration of Independence, as interpreted by Lincoln and understood by the Straussians, is foreign, hostile, to be downplayed, denigrated, and stamped out.

Bradford was disliked by some of these people, because he pointed out forcefully in essays in leading conservative outlets like the old *Intercollegiate Review* and the William F. Buckley-era *National Review* that equality, mentioned in the second paragraph of the Declaration of Independence, is not a conservative principle. It's actually a social solvent. You can't ever have any kind of stability if any institution or folkway is subject to the criticism that "well, we don't have equality as a result of this." No human interaction leads to equality of treatment or equality of conditions, certainly, and so you can always criticize any society or any social institution on the ground that it violates this quote, unquote, principle of equality.

The idea that the country was founded on the claim that "all men are created equal," and the further claim that this principle was one that the federal government was empowered to be enforcing to an unlimited extent is, as I mentioned before, an attempt to vindicate Lincoln. Straussians actually have written books with titles like *Vindicating Lincoln* or *Vindicating the Founders*. Here again, the Founders as understood in these books are not Founders that the Founders would have recognized. They are essentially people who are mythologized by grabbing isolated quotations from here and there and trying to make them seem like 1960s social liberals and 1860s governmental statist.

**WOODS:** Let me jump in a minute here, because I think you've already hit on quite a few important issues. I want to focus in on one of them for now. The Straussians have latched onto this idea of the United States as consisting of one people, so they are inclined to accept—more than accept, proselytize for—the nationalist theory of the Union. They don't admit contrary evidence. Their whole scholarship is intended to culminate in and show that the American experience culminates in Lincoln. Then they have to hold to the view that secession is unconstitutional, because America is one people, and it's one country. It's one big blob. That's the way they're going to tell the story, and they're going to portray the Founding as being all about that. What is there in your corpus of work that would run counter to that?

**GUTZMAN:** First let me say that I did not go into doing work in the era of the Revolution with the idea that I would try to disprove the Jaffa thesis or the West Coast Straussian view of things. It just happened that I came upon evidence that showed that they were completely mistaken or if not mistaken intentionally trying to mislead people. For example, in 1776, the Virginia Convention, which was the ruling

convention in Virginia, the ruling body in Virginia after the governor fled—after the last royal governor decided, “Things aren’t looking good for my health if I stay here in Virginia”—the ruling convention wrote the first American declaration of rights in their constitution.

In the process of adopting the Virginia Declaration of Rights, they considered a proposal by George Mason’s committee saying that “all men are born free and equal,” and government is responsible for protecting their rights. An objection was made to this proposal to the effect that if we start by saying “all men are born free and equal,” and government is responsible for protecting their rights, then we’re going to have either to have a social convulsion in the middle of the Revolution we’re now fighting, or we’re going to have to ignore our own stated principles. Because, of course, we know in Virginia all men aren’t born free and equal. In fact, half of them are born slaves.

So what happened was that the Virginia Convention decided unanimously, with nobody arguing to the contrary, that they would say that when you enter into a state of society, government is responsible for protecting your rights. The point is that they were deciding that the African slaves among them were not part of the society. Here from the beginning, we have a complete rejection of what later would be the Straussian idea that the North American former English colonies, now states, were dedicated to the proposition that “all men are created equal,” and the governments of these states were responsible for pushing this thesis wherever it might lead.

Another part of the story that contradicts the West Coast Straussian version is that these people in Virginia—and I’ve done my work on Virginia; that’s why I keep mentioning Virginia solely, but there are other states that have similar evidence—when they ratified the federal Constitution understood that theirs was one of the—three leading Federalist spokesmen in the Virginia Ratification put it—“13 parties to a compact.” Not one part of one party. In other words, the Federalist spokesman for the Constitution in summer of 1788 in a Richmond meeting, to decide whether their commonwealth in Virginia would agree to live under this new federal constitution, told the other delegates that we are one of 13 parties, and of course these 13 parties were the states. The separate, sovereign peoples of the individual states, and not, “We are part of one great American people deciding here whether the Constitution will be ratified.” Not only that, but the Federalist spokesmen also said in case the federal government abuses its powers we can reclaim them. What does that mean? Well that means, in other words, pulling out of the Union, taking back the powers we’re giving them and saying, we’re not going to agree that you have any powers anymore.

This, too, is contrary to the Straussian idea that was invented by Lincoln, as far as I know, that the Union existed even before independence, even before the Revolution started. His theory was that there already was this Union of the states—one people. It’s just balderdash. There’s nothing in the record of the ratification dispute in Virginia to indicate that anybody thought that the measure of goodness of the proposed federal Constitution was the extent to which it was consistent with the second paragraph of the Declaration of Independence. Nobody mentioned this notion. Nobody thought that. Literally there is no record that anyone thought what the Straussians say everybody agreed to.



There are many junctures in the story of the early republic at which one can ask oneself, “Well, is what’s going on here in Virginia consistent with the Straussians’ explanation or account?” And the answer is always no. No, never did the Virginians agree, “We’re one of 13 parts of one American people,” but instead they repeatedly came back to this idea that the sovereign unit in American federal politics was the state. This claim was made over and over and over, and there were people who were saying, “No, we don’t like this idea,” in the 1780s, 1790s, 1800s, 1810s, 1820s. Commonly they would intentionally confuse the issue by saying, well no, in America we know it’s not the state governments that are sovereign. It’s the American people, but the claim that was being made was not that state governments were sovereign; it was that the states were sovereign, as Madison explained in his Report of 1800.

The word “state” here meant the sovereign people of each state, so it wasn’t that Virginians said the government in Richmond had unlimited authority. What they were saying was that the sovereign people of Virginia had ultimate authority. Actually, one notable Virginia political philosopher objected to that idea, too. He said ultimate authority is in God, but in politics ultimate authority is in the people. In any event, for Jaffa and the Straussians, ultimate authority was in one national people. And how do we know what one national people thought? Typically the way they would answer that question would be by interrogating the scattered writings and speeches of Abraham Lincoln, so you essentially start with whatever Lincoln said, and you know that that’s accurate.

**WOODS:** Let me play devil’s advocate here. The Straussians would respond that when we read Virginians saying that in extreme cases, or whenever the Constitution shall be perverted to their injury or oppression, they may recall the powers delegated, they’re not speaking of withdrawing from the Union, since that’s metaphysically impossible. They were speaking, rather, of their reserved right to exercise the right of revolution, which nobody disputed at that time. Sure, Virginia or any other state could rise up and have an extralegal revolt, and that’s what the Straussians take the Virginians to have been saying. But the Straussians would insist that those Virginians weren’t saying they could have a constitutional secession. How do you answer that?

**GUTZMAN:** Well it’s a funny idea, because this notion of a right of revolution that’s distinct from a right of secession was first elaborated in the nullification crisis chiefly by James Madison but not solely by him. This was to try to downplay the fact that Virginians had been told, “You’re one of 13 parties to a compact.” In one of the major speeches in the Virginia Ratification Convention, in which the Federalist leadership said that Virginia was going to be one of 13 parties to a compact, the orator was George Nicholas, who was a notable state-level politician at the time who came from a family notable for several generations of prominent politicians. His brother was a senator, for example, who ended up being an in-law of Jefferson’s. His father was the last colonial treasurer of Virginia.

Nicholas said: when you have a compact, the interpretation given to the compact at the time of its signing by one of the parties is binding on the other parties if one of the parties in signing says, “Here’s what I understand this to mean,” or if it makes clear that it understands the words to mean what they clearly import, then that’s binding on the other parties. In case the other parties refuse to live up to that understanding then that party is absolved of its responsibility under the compact. So it’s not that these

people were saying, “In case we think the central government is becoming oppressive, we are free to throw off government.” What they were saying was, in case the federal government abuses the powers we’re delegating to it, we’re able to take them back. The phrase he used was, “reclaim them.” So for Virginia to reclaim the rights it was granting to the Congress or to the federal government would not mean Virginia was now going into a state of nature entering into a state of revolution. Rather it would mean that it was putting out of a federal agreement.

In the late eighteenth century, the leading authority on these matters, the leading expositor of the idea of a federal union, was a Swiss named Emmerich de Vattel. Vattel said that a federal union was one in which you had an agreement among the parts. He basically explained it the way I’ve just explained, the way the Federalists sold the federal Union here in the Richmond Ratification Convention. The point is, there was nothing controversial about this explication of the act of ratification. This was nothing unusual, and it did not require revolution for one of the parties to a federal union to withdraw the powers that it had delegated. That was inherent in the idea of a federal union. The ultimate authority would remain. That is, the ultimate authority to elaborate the meaning of the compact through which the federal union had been created remained in the parties to the compact. Of course, you find exactly this same explanation given by leading Virginia Republicans in 1798 when they draft the Virginia and Kentucky Resolutions for the adoption of the legislatures of Virginia and Kentucky, which formerly had been part of Virginia, so it was full of Virginians. This is nothing odd, and it had nothing to do with a right of revolution. They weren’t thinking of overthrowing government. They were thinking of withdrawing from a federal compact.

**WOODS:** I think for some people this might seem like inside baseball, but whether they were talking about the right of revolution, or the right of secession *as a constitutional remedy*, is the central issue. Then you hit on the Virginia and Kentucky Resolutions. In the limited time we have left, I want to talk about that. Today, people will say, “In the Virginia Resolutions drafted by Madison, he’s clearly contemplating something less extreme than Jefferson was contemplating in the Kentucky Resolutions of 1798, especially in his first draft. Madison is calling for something much tamer.” Now you’ve disputed this in a scholarly article, so how do you dispute that, and can you clear this up for us?

**GUTZMAN:** This is very frustrating. In theory, the way that academia works is you go out and do research, and you write up the results of your research. Then you publish the results of your research in scholarly journals, which people read. Having read the results of your research, they modify their understandings on the basis of what you taught them. I wrote an article about the Virginia and Kentucky Resolutions. I used evidence that has never been adduced by anybody else, which is the record of the discussions of the Virginia Resolutions in the Virginia legislature. People commonly refer to the Virginia Resolutions of 1798 as Madison’s Resolutions. Then they go on and quote what Madison said in private, or what he said three decades later, to try to figure out what the Virginia Resolutions meant. But I think it makes more sense to look for the meaning of the Virginia Resolutions of 1798, not to what their unknown draftsman said in 1798, but instead in the discussions in the legislature where the proponents sold them to the majority of the legislature. Remember, Madison’s identity as the draftsman was not known to the public for ten years. It was secret even to the people in the political elite for ten years. For ten years nobody knew that he had written them, so it wasn’t that people thought, “Well, here we’re

ratifying whatever Madison thinks of the federal Union.”

What happened in the Virginia House of Delegates in 1798 was that people sold an understanding of the Virginia Resolutions as meaning exactly what the Kentucky version meant. That is, the legislative sponsor was a fellow named John Taylor of Caroline, to whom I alluded earlier, and he had added language saying that in case the federal legislature adopted a policy that was unconstitutional and dangerous, it could be the states had the right and were duty-bound to interpose, and these policies were null, void, and of no force or effect. Well, some people, the Federalists in Virginia, objected to this “null, void, and of no force or effect” language that had been added by John Taylor of Caroline, and so the story goes, Madison heard that this had been done. He told a couple of people he knew that he would like it removed. Federalists in the legislature said that they wanted this language removed, and it was removed, and this shows that the Virginia version was tamer than Jefferson’s version in Kentucky.

But if you look at what people actually said in the Virginia legislature, you’ll see that they remove this phrase “null, void, and of no force or effect,” not because they thought it was too radical, but because as one of the leading Republican spokesmen, one of the leading proponents of the Resolutions, said, and I’m paraphrasing, really this is just redundancy. We’ve already said that these laws are unconstitutional—that is, any law that involves the Congress claiming power in excess of what the Constitution gave it. So I don’t have an objection to removing the redundancy and just leaving it ‘unconstitutional,’ omitting the redundant ‘null, void, and of no force or effect.’” So the other Republicans agreed, “Okay, we can remove that language.” So it doesn’t mean that they thought that this was going to be a tamer statement at all. In fact, they expressly disclaimed the idea that it was a tamer statement. In fact, they thought that removing this language changed the meaning of the resolutions zero percent.

As I said, I published this in one of the leading journals in American history; in fact the second-most cited journal in American history is the *Journal of Southern History*, where I published this article in 2000. People continue to talk about the Virginia Resolutions of 1798 as if they were Madison’s and as if the way to understand what they meant is to ask what Madison said about them 34 years later. Madison wasn’t in the legislature in 1798. As I said before, (1) nobody knew that he had drafted these resolutions that John Taylor was sponsoring, and (2) apparently James Barbour, who lived on the plantation next door to Madison’s, who stood up and said that this was a redundancy that it was fine to remove, didn’t think this meant he was advocating a tamer version. So the ongoing insistence on asking how Madison read these things when he was responding to the nullification crisis in the 1830s I think has got to be tendentious, because I think people are doing this on purpose. I have encountered some people who clearly hadn’t read the material and hadn’t really digested what I was doing in my article, but I think the fact that people just overlook the point has got to be tendentious.

One reason I think that is: the leading account saying that what we need to do is to look to what Madison said about this decades later was published in *The William and Mary Quarterly*, another scholarly journal, in 1948, and it was preceded by a two-page editorial statement from the editor of *The William and Mary Quarterly* saying (and again I am paraphrasing), “There’s a bit of a dispute going on within the Democratic Party today between Senator Byrd and President Truman, and we are pleased to be able with

the publication of this article to show that Senator Byrd is mistaken, and President Truman is correct.” So the whole thing was done intentionally to buttress the claims of President Truman essentially along a Lincolnian line in 1948, and I think without regard to the question of what the first legislature actually thought it was doing in adopting the Virginia Resolutions. So even today you have Straussians making the same kind of argument, and other scholars commonly make this argument.

Another obvious explanation for why people would come to this conclusion is it’s just much easier to go to the library and get the papers of James Madison than it is to go read through the record of the Virginia legislature in 1798. The papers of James Madison are to be found in every decent college library, and the record of the Virginia General Assembly is available in half a dozen places, so that’s another explanation. But the bottom line is the Virginia Legislature in 1798 was reiterating this claim that I was describing before, that it had been one of the parties to this compact. It had ultimate authority to police the behavior of the constitutional authorities that had been empowered by the Constitution, because Virginia was one of the entities that made this Constitution, so there were several junctures through the early republic when the question how the Constitution was to be read came up and each time leading Virginia figures and the Virginia General Assembly said that the Constitution was to be read the way I’ve just described.

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# The Primal Blueprint

## Guest: Mark Sisson

### October 8

*Mark Sisson is a former distance runner, triathlete, and Ironman contender, as well as the author of numerous books, including The Primal Blueprint and The Primal Connection.*

**WOODS:** Naturally, we have to begin with the required question: what is the Primal Blueprint?

**SISSON:** The Primal Blueprint is a strategy for achieving a lean, strong, fit, healthy body with the least amount of pain, suffering, sacrifice, and discipline possible. How we do that is by calling on modern genetic science and evolutionary biology to give our genes what our genes expect. The premise is that we've evolved to be these lean, upright, fit human beings over millions of years of evolution and that our genes were forged in this crucible of starvation, hard times, and tough times, and they expect certain inputs. When we don't give our body these inputs those genes take steps to protect us. They might make us fat, because they're storing food. They might make us inflamed. They assume that we're under some assault because of the bad foods we're eating. *The Primal Blueprint* looks at all these hidden genetic switches that we can access to be as healthy as possible.

**WOODS:** Before we say something about your new book *The Primal Connection*, the thing that drew me into your circles was the personal testimonies from people at MarksDailyApple.com and all around the Internet. Lew Rockwell has featured a lot of them, and also I've seen them with my own two eyes. The thing is that you don't have to stretch and tell us a story about a guy who was a thousand pounds and barely clinging to life, and now he's 150 and doing great. You've got so many regular-guy testimonies. Can you share with listeners the typical kind of testimony that you publish weekly on your site?

**SISSON:** The typical testimony is somebody who was frustrated after years of trying the conventional wisdom of losing weight, or achieving better health. So many people come to the Primal Blueprint not just because they're overweight. They have type 2 diabetes, or are women who have polycystic ovarian syndrome. They've got thyroid issues or all manner of different lifestyle problems that are afflicting people these days. So the standard testimonial is, "Dude, I lost 50 pounds or 70 pounds in the last eight months. I'm off my meds. I've never had more energy, but the single greatest thing about this program is I know I can do this for the rest of my life."

**WOODS:** mentioned in the intro the books you've written and your most recent book. Tell us, what is *The Primal Connection* about?

**SISSON:** *The Primal Blueprint*, the initial book, really focused on diet and exercise as the prime modalities for achieving this health. *The Primal Connection* looks at what amounts to all the other things that our hunter-gatherer genes expect of us. How do we orchestrate our sleep, so we get enough that we don't get negatively impacted by stress? How much sun do we really need, and how important is sun exposure? How do you achieve that? We look at things like going out in nature, because our brains are wired to expect the frequencies found in nature and not the coffin found in an urban setting. If you live in an urban setting, there are ways that you can achieve those sorts of resonance. You just have to figure out how to get that, and we talk about that in *The Primal Connection*. Our genes expect us to play in the dirt. Our immune systems are supposed to be learning from exposure to soil organisms and organisms in the food. When we live in this overly clean, pristine, hygienic environment, we don't give our immune systems an opportunity to learn how to protect us from the real serious stuff. So all of the sorts of other aspects of life are embodied in *The Primal Connection*.

**WOODS:** So it sounds to me like books that one would want to read in tandem, that reinforce each other according to different aspects.

**SISSON:** Absolutely. *The Primal Blueprint* would be the first one, how to dial in your diet and your exercise, and then *The Primal Connection*, how to bring in all those other elements of your life with the intention of being not just healthy but happy.

**WOODS:** Can you explain what the difference might be between what we would call good fats and bad fats? We've internalized this idea that fat makes you fat. It's the word "fat," and we see low fat all around us. The First Lady is imposing these low-fat, high-carb meals on the school lunches. The kids are all starving midway through the day, because they haven't had any fat. Can you sort that out, so the average person doesn't feel like if he eats too many olives he's going to be a monster?

**SISSON:** It's a fairly complex equation, because what we're trying to do with *The Primal Blueprint* diet is modulate insulin response. Carbohydrates tend to raise insulin. Insulin is a fat storage hormone, so the more insulin you have the more you store excess calories as fat, whether it's dietary fat or carbohydrate or protein. So one of the things that we've assumed over the years, or at least conventional wisdom has assumed, is that fat makes you fat. Well, in fact, carbohydrates are really what make you fat in excess. The main notion we try to arrive at with *The Primal Blueprint* is there are certain types of fats that are actually important that you get them. Saturated fat is not the enemy. There are certain amounts of saturated fat that are actually encouraged within *The Primal Blueprint* diet.

But there are fats that I think everyone would recognize are bad for you. Trans fats are definitely bad for everybody. There are certain forms of polyunsaturated fats, the omega-6 variety, that would be found, say, in vegetable and corn oils, soybean oil, things like that, that are pro-inflammatory, and we would be well advised to get rid of those. Having said that, if you do understand that fat in and of itself isn't



what makes you fat, particularly if you get the healthy fats—that includes, by the way, meat, fish, fowl, eggs, nuts, and seeds, that if you get the appropriate amounts of fats, they actually not only don't make you fat but they probably help your body become better at burning off your own stored body fat, which is really what we all want.

**WOODS:** Mark, a lot times when I talk to Primal people, a lot of jokes revolve around bacon. People love to celebrate that within reason they can have all the bacon they want. Unpack why we would normally feel funny about having bacon and eggs. We're taught that's the worst breakfast you can have. You should be having a bran muffin or something. Why is that exactly the opposite of the truth?

**SISSON:** It became a little bit of a cliché, this whole bacon thing, because exactly what you just said. That the conventional wisdom of the past several decades would be that bacon is probably the worst food you can eat. What we've decided, or what we've uncovered with *The Primal Blueprint* and with this whole paleo style of eating, is that bacon is not only not that bad; in small amounts it's good for you. It's appropriate to have it, and it satisfies a craving or an urge that a lot of people have. Some people, I think, have gone overboard. I've seen bacon brownies and bacon bread and bacon spreads. I think a little bit of bacon is a good thing. Probably too much—I don't want to get sick of bacon. It's become kind of a cliché that people glom onto, because a lot of what we do within *The Primal Blueprint* and this whole paleo eating world—by the way, not unlike a typical libertarian experience—is to thumb your nose at the establishment and say, “Look, I discovered that you've been giving me the wrong information for the past 30 years. Here's what I'm going to do.”

**WOODS:** Let's talk about that for a minute. There are two things you mentioned, both of which I want to delve into. Let's say a little bit more about this matter of the food pyramid. Kids memorize this thing in school. They reproduce it. They color it in. They've got the grains at the bottom. You have to have 11 servings a day or whatever the recommended amount is, and you're suggesting that the pyramid—if we even should think of food in that way—should be ordered in a completely different way. What would *The Primal Blueprint* food pyramid look like?

**SISSON:** We have one, and what it looks like is there are meat, fish, fowl, and eggs at the base of the pyramid. We eliminate entirely the whole grain tier, because we're quite convinced within this scientific community that I play around in with paleo and ancestral health, that grains are antithetical to human health. Not only should they not be recommended, but they should probably be avoided to the extent possible. So meat, fish, fowl, eggs, nuts, seeds on the bottom; vegetables—and we encourage copious amounts of vegetables—then minor amounts of oils and herbs and spices and things like that. So there's a reordering of the pyramid, if you will, even though I really don't like the term “pyramid.” It sort of has some negative connotations across the board, in terms of dictating what people should eat.

I think what we're trying to do is just educate people on choices and say, “Look, I don't care what you choose to eat. I just want you to be aware of the ramifications of your choice. If you choose to eat grains even after I suggested you don't, we can still be friends. It's just that I want you to understand what happens to your body if you overdo the grain thing or if you overdo the sugar thing or if you overdo the



omega-6 fats.” This is my opportunity to educate the public about the choices they’re making.

**WOODS:** Is there anything to this idea I hear sometimes that grains in the past 50 or 100 years are somehow different from grains in the past? They’ve gotten worse in some way because of some type of engineering? Forgive my ignorance, but I hear this a lot. Does this ring any bells with you? What does this mean?

**SISSON:** The farm industry is always trying to improve yield, and one of the things that the vegetarian movement and the macrobiotic movement years ago always stress was that you can get all your protein from non-animal sources. So the grain industry said, “Well, look, gluten is the storage form of protein in grains. Why don’t we increase the gluten content in all of the grains? That way we can advertise that grains have more protein than they did, say, 50 or 60 years ago.” So there’s been this movement to increase the amount of gluten in grains. But the reality is that gluten isn’t good for human consumption. We’ve all heard of gluten intolerance, and we know people who maybe have tested positive for celiac disease or who have serious gastrointestinal problems as a result of eating gluten. But I would suggest that almost everybody has some level of negative response to taking in gluten or these grain proteins. So yes, in the past 50 years, as we’ve increased the amount of gluten in grains, we’ve just made a bad situation worse.

**WOODS:** I realize it’s hopeless to look to the White House or any of these places for dietary advice, but how about private nutritionists? Have you seen any evolution in their thinking more in line with what you’re saying? Or are they all still talking in terms of buying some Weight Watchers frozen dinners, and you’ll be fine?

**SISSON:** Oh no, I’m seeing a huge movement in the nutrition counseling field where people are understanding the concept of epigenetics, how your food and your exercise movements affect how your genes express themselves in rebuilding you on a minute-by-minute basis and the impact that food has on that, and how again the conventional wisdom has been so wrong in so many areas. So, oddly enough, what I see are young people who have come to the Primal Blueprint or to some paleo way of eating and saying, “Look, I really love this. I want to teach this.” Then they find out the major way that they can make this a life career is by going back and getting an RD, become a Registered Dietician. They have to take a series of courses that teaches them the old way of thinking, so they can get a certificate to hang on their wall and then start teaching the new way. It’s really quite perverse if you ask me, but that’s the choice that these young people are making in going into this field. They have to suck it up and learn the old dogmatic way of thinking and then be able to apply this new, exciting way. Literally it’s such an empowering feeling to be able to understand that you can affect your health and your happiness on a daily basis based simply on food choices.

**WOODS:** Mark, maybe as long as they’re stuck learning the old way, the silver lining will be that when they get out there in the public eye, they’re going to know both sides inside and out. Whereas the older folks—I don’t mean chronologically old—they’re going to know their dogma, their propaganda, and it’s good for, if I may say, our side of things, to have this complete knowledge of “here’s what people used to think. Here’s what we think now.” And then they can go out there and be even more effective

in spreading this stuff.

Now it's easy to pick on the First Lady, because of the school lunch issue. I mean, school lunches were bad enough to start with. Most of the time we send our kids with their own lunches. But most of the government's involvement here looks like just informal advice coming from government officials. Is there anything that any government agency like the FDA is doing by commission or omission that is intensifying the disinformation?

**SISSON:** I don't think so. I just think that there's a huge impasse that you encounter every step of the way when you try to change public policy. It's the nature of the beast. It's become so cumbersome and so impossible to effect change that this is sort of the exciting thing about what we do—the fact that this is a grassroots movement. The real inroads are going to be made not just in me telling you what I did to lose 50 pounds but in corporations who are willing to take on pilot studies and say, “Okay, we've got 2,000 employees that have metabolic syndrome or type 2 diabetes or have issues, lower back pain or whatever. We're going to do a pilot study where we're going to throw a little bit of money at this and encourage them all to take on this Primal Blueprint lifestyle, and at the end of six months or a year, I can show you how you've saved two or three million dollars in bottom line costs.” Again, it's just about the economics of this thing. That's where the real strength of this movement is going to come. It's going to come from private industry, and the market forces demonstrating the positive bottom-line benefits. It's not going to come down from top-down public policy.

**WOODS:** I want to distinguish a little bit between what you call the Primal Blueprint and the paleo people. Obviously, there's a lot of friendly overlap here. I have a paleo cookbook at home, and I think you wrote the foreword to it. So we're all friends here to some degree, but with the Primal Blueprint, being your brand, I am interested in distinguishing the two. I know it's more than just dairy, but can you explain the differences? Then I want to ask you about dairy. Are you saying that dairy is something that we can tolerate, so therefore let's not take it away and be killjoys, or is it a positive good?

**SISSON:** The first part of your question, the difference between the two: paleo really started out as a diet and a way of looking at, again, orchestrating a daily diet to emulate a hunter-gatherer experience in the context of the twenty-first century. How do I eat like a hunter-gatherer would have eaten today? And that became the main sphere of paleo. The Primal Blueprint has always been about the full lifestyle. It's been about not just the diet, but the exercise patterns. It's been about the sleep, the sun exposure, the amount of play you get, how much you use your brain. It's been more of a complete lifestyle rather than paleo just being a dietary thing.

If you compare just the dietary aspects of the Primal Blueprint versus the paleo diet, initially you saw that paleo was still avoiding saturated fats. Now they've come on board and said, “You know what? Saturated fats—you're right, they're not the bad guy.” There's no correlation between saturated fat and heart disease, and provided you get other sources of macronutrients, saturated fats are probably a good thing. It seems that the paleo diet still sort of doesn't accept dairy as an appropriate food for humans. On the other hand, when I designed the Primal Blueprint, I wanted it to be as inclusive as possible. I wanted

as many people to come on board and say, “I’m going to try this for 30 days, and if I get the results I’m expecting, I’ll love it. I’ll keep doing it. It’ll be great.”

With regard to dairy there are some people who are lactose intolerant for sure. But for those people who are not lactose intolerant and who consider some form of cheese or cream in their coffee or butter, which is basically 100 percent fat—those are all very acceptable. Again, all these foods fall on the spectrum, Tom, so they go from best choices to worst choices. I would never tell anybody even if they liked milk or were lactose tolerant to go into a store and buy homogenized, pasteurized two-percent milk. I think that stuff is an abomination. But raw milk for some people is appropriate. Artisanal cheeses for some people are appropriate. So that’s a difference between the paleo and the Primal. We talk about a little bit of red wine being okay within moderation on the Primal Blueprint. I think the paleo people have started to adopt that as appropriate as well.

We make a big deal of chocolate. Even though the caveman didn’t have chocolate, there’s enough good science behind the polyphenols and some of the antioxidants in chocolate to suggest that for a treat, as opposed to living some monastic sacrificial lifestyle and giving up everything—that chocolate would be 80 percent, 90 percent chocolate—would be an appropriate treat for a lot of people to have to give them the kind of experience on this Primal Blueprint eating strategy where they can say, “This is easy to do. All I had to do was give up grains. I had to give up some of the nasty vegetable oils, but for the most part I’m eating meat, fish, fowl, eggs, nuts, seeds, a little bit of wine if I like wine, a little bit of chocolate, some cheese once in a while.” It’s a very inclusive eating strategy.

**WOODS:** You hit on the raw milk issue, which I was going to ask you about anyway. So your view is that it’s certainly preferable to the homogenized Hood brand two-percent milk that you see, that is served basically everywhere, by the way. In hotels, whenever they have a free breakfast, you can never get whole milk anymore. When I got to college I was taught to avoid whole milk. You’ve got to have as skim as possible, and the monstrosities that I consumed when I look back on are just appalling.

I want to ask you what you think about the sweetener Stevia. Is that okay?

**SISSON:** Stevia is an example of a naturally occurring herb that can be processed to a certain extent and become a form of sweetening that people can add to certain things. The caution that I would offer, though, is that one of the things that we’re trying to do within the Primal Blueprint is decrease our cravings for sweet things in the first place. Again, the brain is wired over millions of years of evolution to crave sweet things, because historically, up until probably about 300 years ago, there were no sweet things available in large quantities. Until the sugar industry came on the scene, the ability to find sweet things was so rare that when you did—either a stash of bee honey or some overripe fruit—you tended to gorge on it, because that was the brain telling you this is a unique, safe treat, and a source of energy and fuel that we can take on right now.

Obviously, today we have sweet things at every turn, every street corner; everywhere you go there’s an overabundance of sweet things. That’s, I think, one of the reasons that so many of us are overweight,

because our brains are telling us, “Eat sweets, eat sweets, eat sweets.” So the first thing we do within the Primal Blueprint is we say, okay, we’re going to cut down the sugar for sure. Then we’re going to cut back on the processed carbohydrates that you would find. Again, the flour, the wheat flour, the grain flours and things like that, because those convert to glucose in the bloodstream readily as well—that glucose in the bloodstream is sugar. Ultimately we’re looking to decrease our cravings for these sweet things, and we kind of sabotage that intent a little bit when we continue to sweeten things even using artificial sweeteners. So while Stevia is healthy and fine and wonderful, I caution the overuse of it, because it is so sweet that it continues to promote craving for sweet things that we want to get rid of.

**WOODS:** That’s a very, very interesting answer. I still struggle with the craving for sweets, and I’ve fallen a little off the wagon. I’ve gotten more lax recently, because with our house, we’ve got a fifth child on the way. It’s very labor intensive around the house. So it’s easy to slip and slide here and there, but because I make so many YouTube videos, and there are so many pictures of me around Facebook, it’s funny. People can observe. It’s like Oprah on a small scale. They can observe the evolution of my body. They meet in person and say, “My gosh, you’re a rail.” So I have to, on the other hand, be careful that I don’t balloon out again, because people will say, “Oh my gosh, he’s gone back to his old ways.” I have actually used Stevia recently, so that is actually a good cautionary note.

Let me ask you: is there anything that you’ve come across in research or studies or news items or anything that has given you pause or has made you reconsider any aspect of the Primal Blueprint?

**SISSON:** Very good question. Short answer is no. But I reserve the right to change my mind or to reconsider some of these things as information does come down the pike, if you will. I’ve said for the longest time that my philosophy is that the less sugar you burn in a lifetime, the better off you are. So the more you can decrease your dependence on carbohydrates, and the more you can become what we all are—fat-burning beasts—you can develop this skill to access stored body fat and use that for fuel, so your body achieves what’s called its “ideal body composition.”

Having said that, there’s been some discussion in the past several years that some people go so off in the other direction of very low carb that they have issues that may manifest over long periods of time. Maybe those are people who need to increase the amount of carbohydrates they take in. We look at that. Okay, show me some research. Let’s investigate that. Let’s not be so dogmatic, if you will, in our recommendations about cutting back on sugars or carbohydrates. So yeah, I’m always listening to my audience. We have over two million unique visitors a month at [MarksDailyApple.com](http://MarksDailyApple.com), and these people are very vocal. They’re very voracious consumers of the information, and they’ll let me know if they think something’s off. It’s been a great experience to have this blog and to have people comment and say, “Would you consider something else or another point of view or would you rethink that?” It’s been, again, like my own personal wiki here. It’s been a very useful tool to hone my message.

**WOODS:** Mark, I want to give you a chance as we wrap up here to plug MarksDailyApple.com, because a lot of the ideas that you talk about, as with any of us—if I absolutely had to I could distill a lot of my message into ten bullet points—but yet, I’m able to blog frequently and elaborate on things and find

news items so that even though it is just a certain number of points, there's an endless amount of things to talk about. How is it that you're able to keep things fresh and interesting, so people keep coming back over and over again to MarksDailyApple.com?

**SISSON:** Because every time we open one door all of a sudden there are four more doors at the end of the hall. Every time we pose some unique point of view about a way of eating or a lifestyle or about a movement pattern, there are so many different people who can comment on that and who can raise questions. At my company we just keep amassing a list of more and more questions. Here was a real specific thing. If omega-3 fats are supposed to be good for you, and this guy over here is saying maybe an excess of omega-3 fats isn't good for you, there's four articles that we could write just on that.

So it's become this challenge to distill the information that's most reader-friendly and usable—and yet if you go to my site, we've got 3,000 articles that I've written over the past seven years. It's quite a huge amount of information to crawl through, but you'll see that that's why the books, and we do events and things like that, to distill this information into what you call the “bullet points,” but the nuances are always so interesting and incredible. Ultimately, the bottom line: while I say everybody's metabolism, the biology all works the same way, the degree to which it works from one person to another is very individualized, and that's where the interesting areas of self-experimentation come in. That's where we have fun playing with the margin and suggesting, “Okay, maybe try this, or maybe do this a little bit differently.”

**WOODS:** Mark, I'm going to let you run. Of course we all want overall health. I think a lot of people who gravitate to you are initially looking just to lose weight, and then as they do that they realize, well, there are so many more benefits that come from this than just losing weight. I think I can say, even though it does sound like a cliché, that if you're sick and tired of being sick and tired, and if you're also sick and tired of trying things that just don't work, I can tell you that I myself and many people I know who have listened to Mark have had tremendous success. The interview you and I did on the Peter Schiff Show—we did two of them, but one of them a couple of years ago especially—I get more comments on that, to this day, of people saying that that one interview changed their whole lives around, than all other interviews I've done put together. At the very least you owe it to yourself to check out MarksDailyApple.com, and even better to read *The Primal Blueprint* and *The Primal Connection*, not to mention the cookbooks and stuff that I mentioned at the outset.

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# Libertarianism 101

## Guest: Walter Block

### October 9

*Walter Block holds the Harold E. Wirth Eminent Scholar Chair at Loyola University, New Orleans, where is a professor of economics. He has written over 400 peer-reviewed articles as well as numerous books, most notably **Defending the Undefendable**.*

**WOODS:** Walter, you are one of the people most frequently cited when people say, “I became a libertarian because I heard X.” What people like about you is not only that you seem to have an encyclopedic knowledge of all the sorts of issues that arise in libertarian circles, but also because you’re just so forthright and to the point and in your face. “This is my answer; so be it.” And that’s precisely why I’m having you on here today, because that’s what I want. I want the in-your-face answers to some of these hard questions. Let’s start off with an easy one, because there are people who are coming to libertarianism all the time and we can’t assume everybody automatically knows the basics. First of all, tell us, what is the nonaggression principle?

**BLOCK:** Tom, before I answer that—I’m a professor. I’m never allowed to answer anything directly. Let me just say that I can’t believe that most people come to libertarianism because of me. Surely it’s Ayn Rand or Murray Rothbard or Ron Paul or Ludwig von Mises or this guy named Tom Woods, but you’re very nice to say that anyway.

**WOODS:** Well, “one of.” How about that?

**BLOCK:** Okay, “one of” I’ll accept. What is the nonaggression axiom? It’s the normal thing that if you ask anyone if they think that they have a right to initiate violence, just haul off and punch some stranger in the nose or grab his wallet, obviously, they would say no. The nonaggression axiom or nonaggression principle is “Keep your mitts to yourself.” Don’t grab other people without their permission. Don’t grab their property without their permission. And that’s all it is. I think at that level most people would say, “Yes, I agree with that.” To not agree is to be barbaric.

The problem comes when you try to deduce or extrapolate from that, because we get into the question: suppose the government does something. Is that okay if they have a majority vote? But to answer your question very succinctly, the nonaggression principle is “Keep your mitts to yourself.” Keep them off



other people and their property unless you get their permission.

**WOODS:** So what are the political implications? It sounds all very convincing and common sense, and as you say, most people would say they agree with it, but what would they find shocking if it were actually implemented across the board?

**BLOCK:** They would find it shocking, because it really vitiates against government taxation. Government says on April 15th—or now withholding all through the year—“you guys are going to pay us money,” and we never agreed to pay any money. So this is a very, very radical thing when applied to the government, because if you consistently and thoroughly extrapolate from the nonaggression principle you have to oppose what government does, because government is doing things that we haven’t agreed to. It’s grabbing our property without our permission.

**WOODS:** Some people may come back at you and say, “Yes, it’s true that the government steals, and the government does all these things. But since we can’t have civilization without government, I guess civilization requires us to sometimes give up our moral principles. We have to give up a little of the nonaggression principle for the sake of sheer survival.”

**BLOCK:** This is an argument that is employed by some people, and what they would say is, “Yes, government is evil, but it’s a necessary evil. Because if we didn’t have it, we’d have chaos and what have you.” I would say that of all people who consider themselves libertarians, only about five or ten percent are anarchists, libertarians of the sort that I am, who would consistently and rigidly deduce and extrapolate from this principle. Most people who are libertarians would be what I would call limited-state libertarians or minimal-government advocates—or minarchists, in the vernacular. For example, Ayn Rand was like that, and Ron Paul is a bit like that. They would say, “Yeah, so we have to have the nonaggression principle; however, we do need to make an exception for government, because without government we’d have chaos.”

The idea here is you have very limited government. Armies, courts, police—to protect from bad guys, not to export democracy. Police to protect us from local bad guys, not to uphold the victimless crime laws, and courts tell who’s who. I would say that I am not a minimal-government advocate although I respect that position, and that’s a perfectly coherent position. I’d rather live under that society than our present one. To get to your point, I think it’s been demonstrated. There was this book *Uncle Sam the Monopoly Man* in which the authors demonstrate that each and every function that the government has ever performed has been performed by private enterprise more successfully. Armies, courts, police, roads, schools, healthcare, quality of medicine, Food and Drug Administration, things like that. You make a list of everything that the government has done, and most of it is bad. But even the good stuff that would exist in the market has been done successfully by nongovernment agencies, so I wouldn’t accept that retort as definitive.

**WOODS:** I think some people can convert and become libertarians because they are convinced that the nonaggression principle is the right way to go. It makes moral sense. It corresponds to a moral intuition



we all share. I wonder, though, what's the lightbulb "aha" moment that a lot of people have? In other words, not everybody's going to immediately hear that principle and say, "Yep, now I'm going to adapt all of my views so they're in conformity with the nonaggression principle." Is there something about libertarianism as a system or particular examples of libertarianism in action that you think are likely to grab people, so they're willing to consider the whole system?

**BLOCK:** I think as an Austrian economist, I'm a methodological individualist, and I would say different strokes for different folks. Different people come to the one true libertarianism through different avenues, some through the deontology—mainly the pure ethics of it that it's improper, it's barbaric, it's uncivilized to initiate violence, and even if a majority says so. Likewise, government is not really a club. Taxes aren't really club dues, so that's the deontological approach, and it affects some people. Other people are more utilitarian or consequential as they say, "Well, how would the courts work without the government? How could we certify the quality of food and drugs without the government? How could we have highways and streets and roads without the government?" And that would be the consequentialist utilitarian. And then the third part is half and half, half deontology, half utilitarian, and many other combinations and permutations of those. But I think those are the two, the pure ethic of it and the practicality of it.

**WOODS:** I want to jump to an economics question, because you are, of course, an economics professor. You're not just a libertarian philosopher and theorist. When I posted this on Facebook—and remember, guys, 'like' [my page on Facebook](#) because I do put out requests for questions—a good question came up about the minimum wage, and I know you've written a lot about the minimum wage. The questioner says that over the past 60 years he sees no correlation between minimum-wage hikes and hikes in unemployment. He says, "Sure, I understand there are lots of variables that can be offsetting, but surely there can be some correlation, and moreover, I'm stymied by the fact that relatively high minimum-wage countries often have low unemployment rates." Can you sort all this out, Walter Block?

**BLOCK:** Well, I can. I'll try. In a sense this question was right, or this objector is correct. There probably isn't much of a correlation between the rises in minimum wage—say, the national minimum wage over the last 60 years or so, and unemployment. Other things cause unemployment beside the minimum wage, but even apart from that the fact of the matter is that the minimum wage has been relatively stable in real terms over the past 60 years. Yes, it's gone from—what was it? Twenty-five cents to 40 cents to 70 cents to \$1.25 and \$5.15, and I'm skipping a few. Now what is it? \$7.25, and they're thinking of raising it to \$9, but in real terms it hasn't changed that much. It's changed a little bit but not that much.

This would be what economists call a "time series." You look at it over time. You can also do a cross-sectional analysis. At a point in time various jurisdictions have various unemployment rates and also various minimum-wage laws. I did a study like this on the ten Canadian provinces a couple of years back, and I rated all ten Canadian provinces as to what their unemployment rate was for teenage workers or younger people compared to the overall unemployment rate, and I found a very, very strong correlation between high unemployment rates for unskilled workers, mainly teenagers or young people, holding constant the overall unemployment rate and the minimum-wage level. Other studies have been done for the various states, the 50 states, and they've also found these very strong correlations.

I think it's not exactly true to say that those countries that have no minimum wage or a very low minimum wage don't have a lot of unemployment. That's not true, but there is correlation over countries as well. The higher the minimum wage you have, other things equal, the more unemployment you'll get. The "other things equal" is crucially important, because, as I said, other things create unemployment beside the minimum wage. The minimum wage does create unemployment.

Another point that I would make in this regard is that the overall unemployment rate that the government tells us is seven percent. The shadow statistic [TW note: Walter is referring to <http://www.shadowstats.com>] is more like 15 percent, but the unemployment rate for black male teenagers that even the government admits is something like 40 percent or 50 percent, which is stupendously high. And you can just see the minimum-wage law working there.

So much for statistics. Now let's just look at the logic. The minimum-wage law is not an employment law. It never guarantees anyone a job. It just says if you're hired then you have to be paid \$7.25. But suppose your productivity is only \$5.00 an hour. If they hire you at \$7.25, they'll lose \$2.25 on the deal, so they're not likely to hire you. If they do, they're likely to go bankrupt. So the point is that the minimum-wage law is not a floor under wages that raises wages; rather, it's a barrier. You have to have a productivity of \$7.25 an hour; otherwise, you don't get a job. That's why the unemployment rate is so high for unskilled workers.

**WOODS:** Now that we've covered an economic topic I want to jump back into the traditional puzzles that come up with libertarianism. I feel sorry even bringing this up. If it weren't for the fact that you had written a book on this subject, I would really feel guilty raising this subject, but everybody always jokes that the question they get is about...what? Fill in the blank, Walter. What about the...

**BLOCK:** Roads.

**WOODS:** The roads. Okay, so you wrote a book on the privatization of roads and highways, so give us the zippy answer to this.

**BLOCK:** The zippy answer is how many people die on our wonderful socialist roads? It's something like 40,000 a year over the last ten years. It might be a little lower, 38,000, 39,000, but that's an awful lot of people. To put this in context, how many people were killed on 9/11? 3,000. How many people were killed in the aftermath of Katrina, which was not due to Katrina but to the Army Corps of Engineers and FEMA? About 1,900 people. You know every once in a while you have a mass shooting like in Connecticut or Aurora, Colorado, or in the Navy yard or whatever, and you get a dozen people killed. Look I'm not trying to deprecate those numbers of people killed. Every life is precious, but here it's 40,000. That's a lot of zeroes.

Obama's not talking about it. Bush never talked about it. No one talks about this. It's sort of like—what is it? Like death and taxes. It's inevitable. But no, I don't think it's inevitable. I think it's due to the fact that we have a Sovietized one-rule-fits-all kind of monopoly highway system run by government. Whether

it's federal or state doesn't matter much. My idea that I make in this book on privatizing the roads is, let us have some competition. Let us have the Tom Woods highway and the Walter Block highway. Let's say they run parallel to each other and that the Tom Woods highway is a great highway and very few people die, and then on the Walter Block highway people are being killed like flies. The Tom Woods highway is going to take my customers away or I will start emulating the Tom Woods highway, and I will come up with better, more competitive ways of running the highway, which would reduce deaths.

What kinds of things could we implement? What could the Tom Woods highway do that the Walter Block highway isn't doing? Just to give you an example of how road managers could compete with each other to reduce deaths: they say speed kills, but maybe it doesn't. Maybe it's not speed. Maybe it's the variance in speed. The way the government highway has it, it's a minimum of 40 miles an hour and a maximum of 70. But if you go on one of our major highways at 70 a lot of people are going to pass you. Most people do 73, 75, 76, and they don't get tickets for that. Whereas every once in a while you get, I don't know, a person doing 50 or 55. There's a very big variance in speed. Maybe a better way to do it if you have a three-lane highway going in one direction, instead of everyone having to go between 40 and 70, or actually between 40 and 75 or even up to 80, maybe a much better way to do it is in the left lane, everybody has to do 80. The middle lane everyone has to do 70, and the right lane everyone has to do 60.

I don't know. I'm not a road manager, but I'm a speculator on this. I'm speculating that maybe that would reduce deaths. Another speculation is when one truck is about to pass another, and you know it's going to take them 15 minutes or 15 miles to pass it, people hit the gas and try to get ahead of that truck before it passes the truck. Maybe we should make a rule that the truck on the right should let the other guy go by quickly, so he doesn't hog up the road. Another possibility is it's illegal to do 65 miles an hour in the left lane. A lot of people want to do 70, 75, 80. Maybe we should give tickets for people who sit in the left lane and go very slowly, because people who want to go faster have to nip in and out of the lanes. So here are three things in my book. I must mention, I don't know, 20, 30, or 40 of these things that if different roads had different rules of the road or different techniques, maybe we would find out which ones did better. Maybe we would have laboratories and find out how we could reduce death. But no. What we have is a monopoly—one rule, or one style of management fits all, and we never learn how to reduce deaths. It's as if these rules of the road come from Washington, D.C., on stone tablets.

**WOODS:** But I think the concern people have is that road building would not be profitable for a private firm. How do you answer that?

**BLOCK:** Well, I don't see why road building wouldn't be profitable. There are many objections. One: you'd have to have eminent domain to get roads built in the first place, and it wouldn't be profitable. I don't see why it wouldn't be profitable. You would charge a fee. You wouldn't have to stop every three feet and put a penny in the meter the way they do on tunnels in bridges. What you would have is some sort of Universal Product Code like they now have on everything in a grocery store or in a pharmacy. When you go to the grocery store and you buy a can of Coke, they flip it over the glass, and it goes blip. You would have something on the underbody of your car, and it would indicate that you went on the Tom Woods road for ten miles. At the end of the month you would get a bill for that, so it would come

out of your account. These techniques I discuss in the book. It would be like any other service. To say that roads wouldn't be profitable is saying that no one wants to use roads, and that's silly. Railroads are profitable, or at least when they're not run by government they're profitable. Roads and railroads are long, thin things. I don't see why one would be profitable and the other not. I would reject that objection.

**WOODS:** I think what you're describing could well be the case, that there would be two roads that directly compete with one another. But it might not have to be that. It could also work in a way where I'm a merchant. I'm a big, big store, and I want people to come to my store. So one of the ways I'm going to do that is as a public service, I'll offer roads. I will beautify the roads. I'll make the trip from their house to my store as pleasant and delightful and safe as possible, and along the way they'll probably see discounts they can get at my store. Therefore, they can drive on the roads for free the same way most people watched before cable TV. They watched TV for free. It gets paid for through other ways. So in other words, if there's a Sears store, and an apartment complex somewhere, I don't think all the parties involved would be sitting there scratching their heads, "What do we do now?" Sears would have an interest in making sure people have some way to get there, right?

**BLOCK:** Absolutely, and we do even have private roads right now. You go to Wal-Mart or a Sears, and it's this gigantic parking lot of acres and acres and acres, and you just can't park anywhere. You have to park where the parking spaces are, but in between the parking spaces are private roads. Sears or Wal-Mart or any large department store has an incentive to make those private roads run efficiently and they'll put plants there, or they'll put trees there. They'll make it as safe as they can. But they're still under the government. They have to have parking for handicapped people. Although it's interesting that some of the new initiative in this regard is special parking spots for pregnant women, and this was not initiated by government. This was initiated by private people in their parking lots.

So you're quite right. It need not be that you're going to have to pay for all roads. They could be like loss leaders. When you go into Walmart again or a supermarket, you don't pay for the lights. You don't pay for the cleanliness of the aisles. Rather you just pay for what you buy. They give you that as a loss leader in order to attract you into the place. You don't pay for the air conditioning, either. I live in the South as you did, Tom [TW note: from 2006 to 2010], and we appreciate the air conditioning. But you don't pay for it directly. So I think you're making a very good point that I discuss in my book that we need not have to pay for this, but it could be given to you for free and on a profit-making basis.

**WOODS:** Walter, I want to ask a couple things that come up a lot, again, in libertarian discussions. I was thinking to myself, "Isn't it an interesting coincidence that the things I want to talk about happen to be things Walter has written about?" But that's because Walter has written about everything. So it's not just a funny coincidence that it comes out this way.

I know you had an article, of course a co-authored article, on the subject of corporations. That comes up a lot, because some libertarians say corporations are an example of government privilege. They enjoy special government privileges. I used to hold that view, because that was a way I could show the Left how cool I was: "Hey, I don't like corporations either. They're getting special privileges from the

government.” But I don’t believe that anymore, and I don’t think that’s your opinion, either. What do you say to somebody who says a corporation getting a charter from the government is being given a special privilege and therefore is not a market institution?

**BLOCK:** First, let me firm up both of our left-wing credentials. We pinkos, we believe that some corporations do get special government privileges and bailouts and subsidies, and that’s really crony capitalism or corporate state monopoly capitalism or economic fascism, and obviously we would oppose that. The question you’re asking is not whether some corporations get special privileges but rather whether the corporate structure is per se a granted privilege, and here I would agree with you that it is not. Without any special privilege, we each engage in a commercial interaction. I could make a contract with you. One contract with you is a non-corporate contract, and if somehow I failed to fulfill my end of the deal, you can sue me not only for the value of my private company but also sue me for my house and my car or my bicycle or whatever.

That’s one way, and that’s the way that some of our left-wing friends think it ought to be. But another way is: I say, “Look, Tom, I want to make a special deal with you. If I don’t fulfill my contract, you can sue me but only up to the value of the company that I’m putting together—only up to a million dollars. You can’t come after my house, my car, my bicycle, my violin, whatever it is.” If you agree, then that’s not a special privilege. Just a matter of contract. And I don’t see why that would be a per se violation of rights, that you agreed not to sue me for everything, but have a limited-liability corporation. My limited liability only goes up to the million dollars that I got into this company or corporation. I don’t see why that is a per se violation of rights.

**WOODS:** In other words, people who would lend to an institution like this would know ahead of time that they couldn’t go after the shareholders’ kids’ college fund, for example.

**BLOCK:** Right.

**WOODS:** Therefore, in a free market, they would lend to that institution maybe at a slight premium to compensate them for the fact that there’s a limited amount they can go after in case of default.

**BLOCK:** Precisely. That is exactly the case. I might have to pay a higher premium, a higher interest rate, or you might charge me a little bit more if we’re dealing in a nonbank situation, but that’s just part of the market. There are certainly advantages of the corporate format, that you can amalgamate large amounts of money from many different stockholders. Mises even went so far as to say that one of the key distinctions between a free society and a non-free society is the stock market. It’s hard to have a stock market without corporations.

**WOODS:** I want to hit on at least one more thing before I let you go—we could have a whole program on environmentalism, which we couldn’t get to today, or, “If land is taken from the natives, do they have a right to get it back 500 years later?” I got a question from somebody on the subject of insider trading, which comes up in the news once in a while. What would be the libertarian view of insider trading? Can



you explain it in a way that will sound reasonable to the average person?

**BLOCK:** Let me take a hack at that. That's a good question. Look, Tom, suppose you and I want to go into business, and I've got a lot of money, and you are a helicopter pilot. We're looking for, I don't know what, oil or gold or some valuable thing. I can make two kinds of deals with you. One, I can say, "Look, Tom, I'm going to pay you a nice salary, a quarter of a million a year, which is a very nice salary, and if you find any gold or jewelry or anything out there, you have to tell me, and you have to promise that you can't use it on your own account. You can't start buying up land around there, but you're my employee." That's one contract, and that's certainly a valid contract.

But now I'm thinking, maybe I'll offer you a different contract. I'll say, "Look, Tom, I can't really afford to pay you a quarter of a million dollars as a salary, but I want you to go prospecting, whether with a truck or a helicopter doesn't matter. If you find some valuable minerals as a result of your search with my capital goods, this inside information that you've just got as my employee, you can use it on your own account. But I'll pay you a lower salary." Now is that a valid contract? I don't see why not. It's very similar to the corporate structure as well.

Both contracts are legitimate; neither one violates the nonaggression axiom or the nonaggression principle of libertarianism. Yet one is perfectly legal and the other is considered horrendous. If we did the other, we could both go to jail. I don't see how you should be going to jail for that, because as a libertarian, the only reason that you should be punished is if you violate the libertarian nonaggression principle. And this second contract, where you can now avail yourself of inside information, is perfectly reasonable. If somebody else breaks into my desk and steals the inside information, well, then they're a criminal, not because they're using inside information, but because they trespassed.

**WOODS:** How would you then respond to somebody who says, "This just goes to show that, just as I suspected, libertarianism is all about protecting the fat cats, protecting the people on the inside. Now you even want to protect people who are going to prosper on the basis of inside information. What chance does a little guy have in the libertarian world?"

**BLOCK:** Well that's true. We do hate the little guy. No, I shouldn't say that. I'm just kidding. We don't hate the little guy. Mises and our other leaders, our forbearers, our intellectual godfathers, have said that capitalism really helps the little guy very, very much. The example I sometimes use is in the good old days, the king had a coach and six horses, and the poor guy had to walk. Nowadays, the fat cat has got a Cadillac or a Maserati, and the little guy's got a Ford Focus. Now who's improved more? When you go from a coach and six to a Maserati that's a big improvement, but it sure is a much bigger improvement when you go from walking to a Ford Focus. Take another example: the king had a lot of candles, or the fat cat in the sixteenth century had a chandelier with 100 candles. He was well lit. The poor guy, when it got dark that was it. He had to go to sleep, because he had no candles, no light at all.

Well nowadays, the rich guy has got chandeliers that cost a quarter of a million, and the little guy's got a little light bulb, and he can keep it on all night. Who is benefited more? Similarly with TV, the poor

guy has got TV shows, and the rich guy used to have special ballet people coming in for him, and the poor guy had no entertainment. Now the poor guy has got very good entertainment, so in all these cases, both rich and poor gain from capitalism and from economic progress. But the poor gains much, much more. The poor woman has nylon stockings. In the old days, the rich woman had silk stockings, and the poor woman had no stockings. Now they both have nylon stockings, so there's not really that much difference. There's not really that much difference. So in many, many ways, it's the poor who gain more from capitalism.

Look, where would you rather be? Poor in a relatively free market place or middle class in some of these very poor nations where you have very little economic freedom? I used to watch the Olympics in the 1980s, and whenever they would interview a Russian gold medal winner, they would always interview him in a little apartment, not outside. Then outside he'd have a little red car. And I always wondered, why was this? The answer was that in the Soviet Union, the only young person who could have an apartment of his own and a little red car was a guy who won a gold medal in the quarter mile or whatever the Olympic event was. Whereas in the U.S., which is a relatively freer country although it keeps reducing its freedom, you can work in McDonald's and have a little red car. Maybe not a new one but a useable car. You can have a color TV. You can have air conditioning. So it's crazy to think that libertarians favor the fat cats.

When I started this answer, I said that we do oppose bailouts. Corporate subsidies and bailouts and stuff like that, what they did in Detroit, and what they did on Wall Street. We libertarians don't favor crony capitalism. We favor laissez-faire capitalism, a very different kettle of fish.

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# The Neocons: Who They Are

## Guest: Daniel McCarthy

### October 10

*Daniel McCarthy is the editor of The American Conservative magazine (theamericanconservative.com).*

**WOODS:** Let's talk about the neoconservatives in terms of past, present, and future: where they came from, what they're up to now, and where they're going. So first of all, who are these people? Is there a specific set of beliefs that they have? Do they come from a particular tradition? Who the heck are they?

**McCARTHY:** There's kind of genealogy of them on the one hand, and there's also a few attitudes that are sometimes associated with specific policies that tend to distinguish them. They're almost always extremely hawkish. That's a defining characteristic. While there are other hawkish right-wingers, the neocons are sort of unusual in that respect. In terms of their genealogy, they're interesting, because most of their origins are on the Left. In some cases, actually, a few of the key ones, such as Irving Kristol and Joshua Muravchik, started out as members of the Young People's Socialist League at City College in New York. But others had never actually had a sort of socialist or Trotskyist background. They had been on the Left during the 1960s, and it's over the course of the last 40 years or so that they've come to identify themselves more as Republicans and more as people on the Right.

**WOODS:** Today are the neocons still in the saddle? Do you feel like they've had any setbacks? Was Syria a setback, or was that just something minor? Was that an aberration that we're going to forget about a year from now?

**McCARTHY:** I think Syria was a disappointment to them more than a setback. The neocons' power is behind the scenes. It lies in the institutions that control the philanthropies and fundraising tools that they have and also the media presence. Our refusal to go to war in Syria didn't deprive the neocons of any of those weapons. But it did disappoint them, because, as I say, they tend to be very hawkish. They love the idea of the empire in the abstract as much as they are committed to specific policies either for the U.S. or for Israel.

**WOODS:** There are some neocons, like Bill Kristol, for example, who clearly do not believe in limited government in any reasonable sense of that term. But on the other hand, you have a guy like

Mark Levin. Those of you listening to this program know I'm by no means a particular fan of Mark Levin—he's had choice words for me, and I've had arguments for him. The thing is, although some people call him a neocon, but he does seem to believe in limited government in a lot of ways (with the notable exception of foreign policy). So is Fred Barnes a neocon and John McCain and Mark Levin, even though they can't stand each other? John McCain and Mark Levin don't like each other. How do we make sense of all this? Are they all neocons?

**McCARTHY:** It's hard to distinguish, because the neocons have been so influential on the Right in general both the Republican Party, talk radio, institutions, magazines, etc., that even things that don't start out as being explicitly neoconservative wind up having a certain neoconservative tendency or coloration to them. So Mark Levin might not actually be a neocon per se, but he's someone who's clearly very influential, especially with foreign policy. The neocons themselves, their domestic policy takes a backseat to their hawkishness, especially today. In domestic policy, their preference tends to be rather moderate. They are not enemies of big government. They're not enemies really of almost any kind of government power in principle. But in practice they sometimes favor more or less degrees of particular programs. So it's very hard to define in terms of domestic policy. But in terms of foreign policy, they tend to be very hawkish. They tend to have a sense of America as being the little kid who's being bullied on the block—a very strange view, because America is by far the most powerful country in the world. But that really I think is one of the defining neoconservative attitudes towards world affairs.

**WOODS:** Did you see that article maybe a month or two ago in the *Washington Times* in which Newt Gingrich is revealed to supposedly be having second thoughts about some of the neoconservative foreign-policy ventures simply on pragmatic grounds? They haven't had the results that were hoped for, and in some cases have had just downright counterproductive results. I guess we can't know the man's soul. Is it genuine soul-searching or is this a result of the fact that the Rand Paul bandwagon seems to be growing substantially, and Gingrich is putting his finger in the wind to see which way it's blowing? How did you take that?

**McCARTHY:** I had independently heard that Gingrich was having those kinds of second thoughts, and my own very brief encounters with Gingrich have shown me that he is someone who reads books and who does try to think. His predispositions are not reliable as far as I'm concerned, and certainly you know his policy preferences in general have been very, very detrimental, but no, I think he actually realizes both the Republican Party has been taken to a very dangerous and counterproductive place by neoconservatives in terms of the foreign policy they've imposed on it. I think he simply wants an escape, and he's willing to look at whatever options might be open to him. I think a lot of other Republicans feel the same way. They're not committed to one particular vision of foreign policy or another. They simply realize that what we've seen in our last decade has been disastrous for them on a purely practical level.

**WOODS:** Gingrich, Kristol, the other big names we associate with neoconservatism, they have one thing in common today: they're over age 60. So there's a generational issue at work here as well. On

the other hand, there are apparently *some* young neocons. I went to CPAC for several years. I didn't think they existed. I didn't think there were any people, much less young people, who would drop what they were doing so they could go watch just a video screen of a Mitt Romney speech, and yet there were such people. Is there strength among young people in neoconservatism and if so, where's that coming from? What are the institutions that are forming it?

**McCARTHY:** They're not particularly strong with young people, although your experience at CPAC shows that there are people who just for purely political, tribal reasons identify with the Republican Party so strongly that they'll have a kind of admiration for someone like Mitt Romney, a figure who otherwise would generate no enthusiasm whatsoever. That's kind of a partisan Pavlovian reflex. The neocons, because they exert so much influence on the Republican Party and the conservative movement, are able to get some young people sort of by proxy through that mechanism. But in terms of the kind of young people who will shape the future, the leaders, the thinkers, the writers, the people who are most energetic about getting things done, it seems to me that the neocons are very weak there and that their philosophy is not gaining converts. But that's not to say that there's no one. They do have outlets such as the Washington Free Beacon, for example, a website with a great many young people working for it. That's a website that was actually started by William Kristol's son-in-law. The neocons do have the next generation, but it doesn't seem to be a generation that has the kind of intellectual resources or intellectual capital that the forefathers had.

**WOODS:** Right. You can imagine reading something by Irving Kristol, let's say, and not thinking right away that it's the most preposterous thing you've ever read. Yet I find that when I do come across young neocons—I don't know, whether in *Human Events* or wherever they manage to get published—it could just be my own prejudices, but I'm distinctly unimpressed. They don't seem to be particularly widely read. They don't seem to aspire to be widely read. It's almost as if they aspire simply to a part of the machine, because the machine certainly doesn't reward people who are widely read.

Let me throw out a specific name to you, and I want to get your immediate response, like word association. The name is Ted Cruz. Tell me what you think about Ted Cruz.

**McCARTHY:** I think Ted Cruz is the bridge or the lynchpin that links neoconservatism with the grass-roots Tea Party and even with certain kinds of libertarianism, that they want to project onto Republican politicians something that isn't there. So Cruz, I don't know the man personally. I don't know where he's coming from necessarily. But I do know that he hasn't really done anything that has broken the mold for Republican thinking about any issues, let alone something like national security or foreign policy, the way that Ron Paul certainly did and Rand Paul has as well, or for that matter Justin Amash in the House of Representatives. So Cruz is someone who seems to take the existing Republican set of attitudes and amplify them. He amplifies them, and he preaches them in a very articulate way, which I think is appealing to young people and to voters all across the country, but I don't see the message itself is all that different from what we were getting during the Bush era.

**WOODS:** I thought, when we had that confirmation dispute over...I'm blanking on the name.

**McCARTHY:** Chuck Hagel.

**WOODS:** Chuck Hagel, right. When that dispute was going on, I thought he conducted himself like a propagandist, and I felt completely vindicated. Because from the beginning, I thought there's no way this guy can be a foreign-policy noninterventionist and have endorsed Rick Perry for president. I couldn't understand the enthusiasm for him among so many people. Yet you typically see him lumped together in a group of people we're told are the good guys in the Senate: there are Mike Lee, Ted Cruz, and Rand Paul. What do you think about that troika? Do you think there's something to that, that they are some kind of a bloc, and so if so, how does Rand Paul fit into that bloc?

**McCARTHY:** They are and they aren't a bloc. They've all been elected fairly recently, since 2010, and they all are willing to fight the growth of government. They've supported one another in various filibusters. So I do think there is a linkage there. But I think each of them also has a distinct point of departure with their philosophy. With Rand Paul, I think it's very clearly a very strong element of his father's philosophy and also a practical element that's also reexamined thinkers like George Kennan, for example, on foreign policy. So Rand Paul is someone who's very creative, and he takes a libertarian base. He turns it into something new and something that may have very good prospects in the future. Ted Cruz, I think again he's much more of a conventional Republican in the mold that we've seen in the past. I think he's someone who may be comparable to Jim DeMint, for example. So he may be very strong when it comes to limited-government issues, but I have doubts about him when it comes to the more difficult matters.

Republicans tend to shy away from having any kind of anti-neocon views, especially when it comes to the national security state or warfare. But even there I should point out what Cruz said during the Hagel nomination hearings, in which Hagel was being attacked. Hagel had actually voted for the Iraq war in 2003, but he didn't support the surge in 2006. People on the Republican hawkish Right thought Hagel was a dove, that he wasn't sufficiently militaristic. That was the main contention on the Hagel hearings, and Cruz joined in on the criticisms of Hagel. But even then Cruz did back off a little bit and say that he thought of himself as being less aggressive in terms of foreign policy than some of his other colleagues who were criticizing Hagel. So even Cruz is aware that this is not something that he wants to embrace wholeheartedly. He's not John McCain. But I do have doubts about him.

I think Mike Lee is yet another thing, because he's clearly someone who comes from a constitutionalist conservative background, and doesn't have the libertarian theory that I think is behind some of Rand Paul's thinking, but clearly does have its own sort of serious faces as well. Lee's been doing a lot of work trying to craft a pro-family policy with tax cuts, for example, that he melded together with constitutionalist conservative and views of limited government. So I think each of those three individuals is actually very interesting and very distinct from the others, even though they wind up cooperating quite a lot.

**WOODS:** Dan, I'm going to read you something. I want you to comment on it. I want you to expand on it. "The conservative movement as we've known it until now is dying. It has powerful money-making

scams but no brain, no direction, and very little relevance to the economic, strategic, and cultural questions that matter today.” I’ll preserve the anonymity of the author of this quotation unless you’d like to spill the beans. Say more about that, because I find that intriguing.

**McCARTHY:** For your listeners’ benefit, that was something I wrote to Tom just earlier this afternoon.

**WOODS:** So I didn’t know for sure if I was supposed to quote that or not.

**McCARTHY:** I’m happy to own up to it. I’ve said similar things in public. The conservative movement as it exists now is something that was developed during the Cold War really to push a more military approach to the Cold War. It has other elements. It has social conservatives and others who have clearly different priorities, but the whole infrastructure, the whole backbone and central hub, is something that was built to address a certain set of conditions that existed during the Cold War, and not only during the height of the Cold War, during its early days, but even during the later part. Because after Vietnam and after Nixon went to China, a lot of people on the Right, and also people who were sort of proto-neocons in the Democratic Party, became very alarmed at what they saw as détente, and a general sort of demilitarization of the Cold War. You had this new sort of alignment of hawks that started to cluster and roost in the old conservative movement from the Cold War, and that gave it a new lease on life. That lease on life was then renewed yet again in 2001 when you had the 9/11 attacks. So this entity has been around in one form or another for about 60 years.

At this point I think it’s outlived its usefulness. It’s something that can still generate a lot of television viewers and talk-radio listeners. It gets a lot of donor dollars, because there’s a perfected formula for going after middle-aged and elderly white Americans and getting their money and getting their attention. In terms of addressing what Americans under the age of 40 or so are most concerned about I just don’t see it. You don’t see this conservative movement ahead of the curve when it comes to questions like what do we think about the Federal Reserve? What do we think about America’s role in the world if we don’t want to be an empire, which Americans clearly do want to be? They’ve voiced that concern in several elections in the past five years. So the conservative movement doesn’t address these questions. Instead it’s still fighting as if the question is whether we’re going to elect Ronald Reagan in 1980 whether or not our stance toward the Soviet Union is hard enough.

**WOODS:** That naturally leads to the question about the conservative movement and about neoconservatism in particular. They’ve got to change in some way; their demographic is dying. Somebody found an interesting statistic about the demographics of people who like Ron Paul on Facebook and those who like Rand Paul, and the Rand Paul likers are much older. I suspect that’s going to be all the more true for people who are just out-and-out neocons. How do you anticipate they’re going to try to adjust to what is clearly a changing electorate? They’re not just going to go down with the ship. Power is the most important thing in the world to them. How do they change in a way that doesn’t compromise what they really want to do but puts a different gloss on it?

**McCARTHY:** They’ve done it before. In the 1980s and the 1990s and really into the George W.



Bush administration, neocons who started off being rather skeptical or critical of social conservatism or wanted to keep it at arm's length. They considered it somewhat uncouth. They became closer and closer to the Religious Right, basically. They found a way to build bridges, and at this point in terms of social policy, the neocons and the Religious Right are more or less indistinguishable. There were some exceptions. Someone like John Podhoretz, for example, has *Commentary*, has a more progressive view of various social policies than many of the other neocons. The neocons keep most of that pretty quiet, and they work very closely now with a lot of Religious Right leaders. I think their next step is to try to build similar bridges with the Tea Party and with certain kinds of libertarians. Again what the neocons are most interested in is this kind of Manichaeism worldview, this clash of good and evil to be fought by actual arms by the United States in the world. They're perfectly willing to adjust their domestic policy on whatever issue it might be if that's necessary in order to gain power and to perform the ritual, as it were, in terms of fighting the last battle of good and evil in the world.

**WOODS:** Dan, this may be a heresy among some libertarians, but I have a lot of sympathy for conservatism. In questions that are not directly political I still think of myself as a conservative. I don't use the word, because unfortunately it brings up all these unfortunate associations. I don't want people to think I'm Ted Cruz or any of those sorts of people. When I try to explain to people that there used to be a more humane, more intellectual, more civilized conservatism, people don't believe me, because it looks like there are only like five or six such people. What you're doing over at *The American Conservative* magazine is helping to buttress my case so I don't seem so implausible when I claim that there is conservatism other than Rush Limbaugh. Why don't you take the closing one or two minutes to explain to people what the mission is that you guys are up to over at *The American Conservative* magazine.

**McCARTHY:** *The American Conservative* is both a print magazine and also a website; the URL is [www.theamericanconservative.com](http://www.theamericanconservative.com). We started back in 2002 to show that there was another side of conservatism. Not just what George W. Bush was pushing. George W. Bush of course favored the Iraq war. He was the driving force of that, and *The American Conservative* basically said this is completely wrong. This is wrong not only on a moral level. This is not only wrong on a strategic level, it's even wrong in terms of what conservatives actually stand for. Conservatism as what we understand it and as in fact it was historically understood before you had this kind of movement that was fighting the Cold War. The historic conservatism has more of a Burkean element to it. It's thoughtful. It doesn't like sudden change. It's very skeptical of any kind of ideology that wants to transform the actual lives of people to fit some sort of ideal pattern.

That's true across the board. That's true whether it's communists trying to do it or whether it's neo-conservatives or anyone else. So conservatism, I think, has this depth and this sense of taking things very cautiously and judiciously that gets totally lost in so many other walks of life today. *The American Conservative* tries to bring that back. We certainly believe very strongly in federalism. We believe very strongly in localism. Very much we are about this idea that if self-government means anything at all, it means self-government within a constrained context. It doesn't mean being one vote out of 300 million in a continental power. It's not something that can be distilled into a sound bite, because

it really is about taking so many of these ideological assumptions that people have been programmed to believe and deconstructing them and looking more seriously at our actual lives and our practices and what's wholesome about them, what's necessary to preserve those things.

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# The Future of Bitcoin

## Guest: Erik Voorhees

### October 11

*Erik Voorhees is a longtime Bitcoin entrepreneur. Follow him on Twitter at <http://twitter.com/ErikVoorhees>.*

**WOODS:** Let's start off with the best you can do in explaining for the layman, in a nutshell and without any nuance, what Bitcoin is.

**VOORHEES:** Sure. Bitcoin is a digital currency, and it's a payment system through which people send that digital currency. So it's basically a way to send digital units called Bitcoins between any two people that are using the system. And Bitcoins are not tied to any commodity or any government fiat currency. They are their own currency unit and the price of them fluctuates on the open market.

**WOODS:** Now what's the benefit of Bitcoin? Why would somebody be interested in Bitcoin?

**VOORHEES:** Well, there are several reasons. One is just that people who prefer an alternative to government money might really like Bitcoin. But practically speaking, you can send any amount of money anywhere in the world instantly with almost no fee. So compare that to any bank or credit card, and it really blows it out of the water. Some people use it for ideological or moral reasons, because they don't like using the government's money, and some people use it because it is a better payment system, much faster, and much cheaper.

**WOODS:** I think a lot of people are interested in the whole matter of Silk Road and the shutdown of Silk Road and how that happened. I want you to do three things for us. First is tell people what Silk Road is or was. Then secondly, how did it get shut down, and is there any weakness in Bitcoin that's been exposed because of the shutdown of Silk Road? And then thirdly, does this mean there's going to be added surveillance or harassment or spying on of people who are interested in or trading in Bitcoin?

**VOORHEES:** So what is Silk Road? A lot of people have heard about Silk Road over the last few years. It was one of the things that first got a lot of press attention for Bitcoin. Basically it was a website where users would buy and sell illicit drugs—things that are illegal in almost every country. And this was not a website that you would find in the normal Internet, but it existed over what's called the Tor network,

which is sort of like a dark Internet. And the Tor anonymizes internet traffic, so you can't really tell from where a visitor is coming or where a server is hosted.

So Silk Road was a marketplace for drugs that lives in the dark Internet under Tor. Of course you can't buy drugs online with your credit card, because then there is a paper trail of what you've been spending your money on, because credit cards obviously have no privacy whatsoever. So Silk Road instead used Bitcoin, because one of its attributes is that it is pseudonymous or nearly anonymous depending on how careful you are with it. Your Bitcoin account is not attached to any name or address or any identifying information at all. So if you're careful in how you use your Bitcoin accounts, you can do so with a great deal of privacy. And that's what was used on Silk Road.

**WOODS:** Why didn't Silk Road go on forever?

**VOORHEES:** Silk Road has been running, I guess, for about three years, but last week the alleged operator of Silk Road was caught by the FBI, and the servers were seized and shut down. So Silk Road is no more. It is gone now. Looking at how the FBI actually carried out this attack, mostly it was due to some careless mistakes made by the operator of Silk Road. So if you're trying to run something purely anonymously for many years you can't mess up, and this guy messed up a few times. And it was enough for the government to piece some things together and figure out who he was and where he was and ultimately arrest him.

**WOODS:** I think the way this was spun, at least initially to some people, especially by Bitcoin skeptics, was to say, "Aha, you see, you people thought that with Bitcoin nothing could be tracked, and now look, everybody's transactions in fact are easily visible to everybody." To what extent is Bitcoin anonymous or can it be made anonymous and if so, how?

**VOORHEES:** When you create a Bitcoin account, it's just a long string of numbers. Think of it like a Swiss bank account number. And it's not attached to any information about you. Now if you go out into the world and post that address in places, if you put your Bitcoin address on your Facebook page, now suddenly it is not anonymous anymore. Now suddenly that address is very much attached to your real-world identity. And so if you want to use it in a way that is actually anonymous, you have to take a great degree of care in how you behave with it. And if you take that care you can achieve a great deal of anonymity, but you just have to be careful.

So the thing to understand about this Silk Road issue is that the government did not find the operator of the site or take him down or seize his servers due to any vulnerability or problem with Bitcoin. They weren't tracking money around. They weren't attaching Bitcoin payments to real-world users. They were going at it from the network security side and just general police work trying to find out who this guy was, and they were able to do so. It really had nothing to do with Bitcoin at all, and Bitcoin was the strongest link in a chain that actually was weak elsewhere, if that makes sense.

**WOODS:** Well, I wonder if this is related to an item I read a few days ago. Let me just read a few

sentences of this to you and to the listeners here. “Closing down Silk Road and arresting its alleged operator has left the FBI in uncharted territory. After shuttering the hidden site, law enforcement went to work confiscating the money and materials belonging to the alleged operator.” But they say that they’re finding that the more than 600,000 Bitcoins in his personal fortune are still inaccessible to them. And then it goes on to say, “The only way to move Bitcoins out of a private wallet is to have the corresponding private key to authorize the transaction. The FBI has been unable to get through the encryption, leaving all those Bitcoins—amounting to roughly \$80 million at current rates—out of reach.”

**VOORHEES:** Correct.

**WOODS:** Now, I don’t know. Maybe that’s changed over the past few days, and they figured something out. But can you comment on this?

**VOORHEES:** Yeah, I’ll clarify a few things. First of all, they were able to seize some coins. They seized coins that were basically held on the live Silk Road server. These were coins that were in what’s called a hot wallet, meaning a big coin wallet that is very much online, not necessarily encrypted, not stored safely. The reason that you would have a hot wallet is that it can be used for live transactions very quickly. So most Bitcoin businesses have a hot wallet where money is going in and out quickly, and it’s not super secure. And then they keep their savings in a much more secure form called a cold wallet or cold storage.

So the FBI got the hot wallet. 26,000 Bitcoins from the Silk Road website. Most of those belonged to users of the site who had Bitcoins deposited in their Silk Road account. But the government has not been able to get the 600,000 Bitcoins that apparently belong to the operator of Silk Road. They have his wallet that has all these Bitcoins in it, but they can’t break the encryption. And this is quite funny actually, because they spend billions of dollars building these research facilities and have all the supercomputer power in the world, and yet they can’t get into the Bitcoin wallet of this guy, because it was secured properly. So this is a strong testament to the fact that Bitcoin, when used properly, is really quite bulletproof.

**WOODS:** So in other words, let me make sure I’m clear on this. You’re saying that not only can they not get access to those Bitcoins now, but unless, I don’t know, he buckles and spills the beans or something and gives them the information they need, they’ll never be able to access them?

**VOORHEES:** Correct. They would have to torture him into providing the password, and depending on how he set it up, he might not even know his own password. He may have, you know, set something up in such a way that he doesn’t even know it. There are certain ways to do that, but basically if they don’t get his password, they can’t get those Bitcoins ever.

**WOODS:** All right.

**VOORHEES:** And what’s further actually entertaining about this is that Bitcoin wallets can be copied, so even though they have his wallet, it’s likely that that wallet exists in other places. Maybe he had copies with friends or trusted partners who he worked with. Maybe there’s one buried in his backyard.

But anyone who has a different copy of the wallet and had the password can still spend those coins. So even though the government has the 600,000 coins, they can't spend them, and anyone else who has a password still can. So they could at any moment vanish from under the FBI's fingers.

**WOODS:** Well, what do you think about this thing called Zerocoin, which is sort of suggesting that there isn't enough built into Bitcoin to guarantee anonymity, and so if you have Zerocoin this makes you better off? Do you think this is overkill? Is this a misunderstanding? How do we understand something like Zerocoin?

**VOORHEES:** Bitcoin is a very diverse ecosystem of developers and interests and software. And I as I mentioned before, it's not automatically anonymous. You have to be careful with how you use it. So there are some people out there who think the anonymity is extremely important, and so they spend their time writing more software to improve the anonymity aspects of Bitcoin. Other people don't care about anonymity at all. They build software that doesn't care about that type of thing. So you really have people working in all different directions in this ecosystem. Zerocoin—I'm not an expert on it, but in general, anything that improves privacy without causing other problems is typically a good thing. I tend to think that the privacy afforded by just the standard Bitcoin is extremely good. It's mostly a case of knowing how to use it properly.

**WOODS:** Now, I think of myself as being very much a sympathizer of Bitcoin. At some point I want to have [my LibertyClassroom.com](http://my.LibertyClassroom.com) accept Bitcoins [TW note: it now does], and I just haven't gotten around to it. And I'm sure it's easy, and I can hire somebody to do it for me. I've just been a lazy bum, and I haven't. I'm more or less in your corner. But for the sake of devil's advocate here: I walked into Panera Bread for lunch not long ago, and there on the front page of *USA Today* was the Silk Road story. Now the guy I was having lunch with had never heard of Bitcoin before, and the story was zooming right over his head. But there it was on the front page.

So it seems to me that at a time like this if you're going to go to a Bitcoin conference, and you're going to be out there and be very vocally and openly associated with Bitcoin, you have to expect that there are going to be people that you don't like, namely the authorities, so-called, who are going to be very interested in you, who may be tracking you. Is there anything to be concerned about, and what are your thoughts about this?

**VOORHEES:** Yeah, that's a really good question. The authorities have obviously been aware about Bitcoin for a few years. Being involved in a number of Bitcoin businesses, something that's very important is how the government will react to Bitcoin and Bitcoin companies. It's very important to understand that Bitcoin is not just this underground currency that's used for drugs. It is used for everything that money is used for. People buy the most innocent things online with it. They use it to pay each other for beers at bars. It's used just as any money, and I think most government people that are interested in this understand that point. They know that only a small percentage of Bitcoin users are involved in illegal activities. They see it as something that's innovative. They don't quite understand it. They don't know how they should regulate it, but they don't see it as this terrible technology that they need to shut down.

There are many companies in the U.S., venture-backed companies, that have raised millions of dollars from prominent tech investors, that are explicitly Bitcoin companies. They use their real names. They have offices. They have employees. They're not hiding from anyone, and they don't need to be shy about being involved in Bitcoin. And what's really, I think, important about this Silk Road lesson is that a lot of people I think incorrectly assume that Bitcoin existed because Silk Road was there. That the only real use of Bitcoin was that people bought drugs online. Those of us who've been involved with this for a few years know that that's not true at all, but it's hard to prove that.

So now that Silk Road is gone, people are going to see that the Bitcoin value doesn't drop to zero, the transactions aren't falling off the cliff. It's still being used just as much as it was before. The prices actually were covered all the way since the drop last week. So there's been almost no effect on the price, and people will realize that Bitcoin is much bigger than the Silk Road. It wasn't Bitcoin that relied on Silk Road. It was actually Silk Road that relied on Bitcoin.

**WOODS:** I was just about to ask you to tell us about what kind of value fluctuation occurred, but it's interesting to note that it did recover. Now the average person who maybe doesn't know a whole lot about Bitcoin but follows financial headlines—it does seem that we've been seeing an increase in headlines about this or that aspect of Bitcoin, or there's this firm or this person having either more government oversight or regulation or harassment. I mean, doesn't there seem like there's been a cluster of stories like that? And if that's the case, is there any reason for concern by people using it, or is the thing just so bulletproof that this is just like trying to take Superman down with a machine gun?

**VOORHEES:** It's fairly correct to use that Superman and the machine gun analogy. Not everyone that's involved in Bitcoin is an extreme libertarian who doesn't want government around at all. There are people who think governments are great, and they just need to regulate in a smart way. And so a lot of them will advocate that governments, whether in the U.S. or elsewhere, need to create regulation and to control Bitcoin in a prudent manner. And so they go about doing that. But if you really understand Bitcoin, and you realize how the distributed payment network works, you don't need to fear the regulation, because the people who don't wish to participate in that system can use Bitcoin in whatever way they want. It is a tool that no one controls, and so it doesn't matter what Washington says about it or does to it. It is something that anyone can use for any purpose whatsoever.

**WOODS:** Now, I'm sure people's appetites have been whetted a bit by this, and again, we've been a bit cryptic, because we haven't answered a lot of the objections or explained the nuts and bolts of how it works, what a wallet is, and so on. Are there online resources where the absolute newbie can go?

**VOORHEES:** Yeah, I think one thing that's important is that you're not going to understand Bitcoin from just a ten-minute read through a Wikipedia article. It is a new world of technology. It would be like trying to learn all the things that the Internet was in the early days of the Internet. And so if you're actually interested in Bitcoin, spend an afternoon and learn about it. Spend a few hours really understanding it, because just like myself when I first heard about it, I was extremely skeptical and thought it was really stupid, but then after a few hours of educating myself on it, once it clicked, then it clicked.

But people need to spend a little time doing that. I'm not going to recommend one place to get started. I would just say, dedicate some time and treat this as an important tool that you should learn about just as every important tool you use from your car to your computer, and spend some time educating yourself.

**WOODS:** Eric, before I let you go, do you mind if I ask you a personal question?

**VOORHEES:** Sure.

**WOODS:** You've relocated to Panama. Can you shed some light on what motivated that decision and what life has been like for you down there?

**VOORHEES:** I've lived abroad a couple of times. I think there's a lot of value in getting outside of the U.S. bubble, but one of the companies I'm involved with had started up in the U.S., but things are expensive in the U.S., tax rates are high, and because Bitcoin is a global ecosystem, most of our customers will be outside of the U.S. So we didn't want to hamstring ourselves to the U.S. regulatory apparatus if we're going to be working with rural farmers in Kenya. So we chose to leave, and we went to Panama City, because it is a financial center. It has low taxes, and it's not too far from the U.S. when we need to travel to conferences and to see our families. We're not super remote.

**WOODS:** Well, Erik I appreciate your time. I thought of you first of all as the guy to talk to. It's hard to deal with Bitcoin in layman's terms, because it depends on the level at which you want to understand. I guess it's sort of like the Internet.

**VOORHEES:** Yeah.

**WOODS:** I don't need to really understand fully how the Internet works in order to benefit from it.

**VOORHEES:** Or like a car, right?

**WOODS:** Exactly. I have no idea how a car works. Yeah, I have not the slightest idea, and when I hear people talk about cars and the Internet at a very high level, I just think this is hopeless. I'll never understand this. But you can talk about it at both levels, and I really appreciate that. And I hope you can be my Bitcoin go-to guy when there are items in the news.

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# Is Sweden a Good Model?

## Guest: Per Bylund

### October 15

*Per Bylund is John F. Baugh Center Research Professor in the Department of Management & Entrepreneurship at Baylor University's Hankamer School of Business.*

**WOODS:** In 2001 and 2002, what were the Walks for Capitalism in Stockholm? Can you just tell us about that before we get into the nitty-gritty about Sweden?

**BYLUND:** Well, certainly. The Walks for Capitalism were some sort of event celebrating the free market, organized by a guy in Australia, I think. These manifestations were held all over the world. Start the first year with 80 cities all over the world, and I was the organizer for the Stockholm manifestation. And of course, the guy organizing this was based in Australia. He figured December would be a really good date, because it's in the middle of the summer and everything. So of course, we had to march for capitalism in the middle of a blizzard both years that I organized this thing. But what we did was basically get people together, show support for the free market and capitalism. We had some speakers there, people chanting, trying to stay warm, basically. I think the first year we managed to get 500 people out in the streets. That's a decent crowd.

**WOODS:** That's very, very hard to do under any circumstances on any subject, so to march for capitalism in a blizzard in Sweden is really saying something.

You've lived in the United States for a number of years now. You got your Ph.D. at the University of Missouri, and now you're a professor at Baylor University. I notice you're not living in Sweden right now. What made you decide to move to the United States?

**BYLUND:** I always wanted to move to the United States. Maybe I bought into the myth of the land of the free and all this stuff just like everybody's buying into the myth of Sweden being this socialist utopia. But you know, there is something about America that I just love, and that's why I'm here. That's why my wife is here as well.

**WOODS:** All right, now that we've got the preliminaries out of the way let's dive right into this. What most people think they know about Sweden is as follows: Sweden has a very substantial welfare state,



an incredible amount of government spending, very high taxes, and the results have been pretty good: the Swedish economy has been fairly robust, and if you do polls of the people in Sweden, they seem fairly happy with things. They have no apparent desire for any serious changes, so how can you take a different view? On what grounds do you dissent from this? And secondly, doesn't this demonstrate that our claims about the free market must be overblown if this level of government intervention is yielding you still a more or less livable society?

**BYLUND:** Well, sure. I mean, first I would correct you and say that what most people know about Sweden would probably be ABBA and the Swedish Bikini Team.

**WOODS:** Well, that's true.

**BYLUND:** The welfare state would be third. I would say there's a lot of propaganda. And this propaganda is actually very hard to get rid of, because Swedes, too, believe in the myth. And I think the reason this myth is so hard to kill is that Sweden actually did work very well for decades as a rapidly increasing welfare state. And the reason for that was simply that there was enormous economic growth due to the free market that was actually in existence in Sweden back then. So there is a lot of history that actually supports this myth. It has probably nothing at all to do with what Sweden is like today or what Sweden was like 30 years ago.

**WOODS:** So in other words, what happened was that Sweden had a relatively free market, and this builds up a lot of wealth. And then in establishing this welfare state it squanders all of this. And that would give the impression that things are going really well. But what's been happening, let's say, over the past 20 or even 30 years in Sweden by contrast?

**BYLUND:** Sweden had its own depression in the early 1990s, simply because in the 1970s with the economic crisis back then, Sweden ran out of money. There were basically no more world wars to tap into, because Sweden was not part of World War I or World War II. But as a small country in the middle of Europe, it could easily export everything that was produced, so we actually tapped into the world wars and all the destruction of those wars. And by the 1970s with the economic crisis, there was really no reason for Sweden to experience greater growth than any other country. So they tried to increase exports, because that's the only thing that Sweden could actually do to get more wealth. And they did that through writing down the exchange value of the Swedish currency, and they did that a number of times during the 1970s by 10 percent and 16 percent and so forth. And that didn't really work.

And then in the early 1990s, in 1992, there was a lot of speculation against the Swedish currency, as part of other such speculations against the British pound and Portugal and so forth. But Sweden could not stand against this sort of speculation, so they had to let it go. And then it was obvious that Sweden was in really bad shape with high national debt, really, really high taxes, and no economic growth. There was basically no economic growth at all except in the public sector during the 1980s. So what has been going on since then is that all parties in the parliament agreed that they needed to cut back on the welfare state. And that has been going on since 1992.

**WOODS:** Well, to what extent? I mean, do people notice the cutbacks? Are they American-style cutbacks, which means no cutbacks at all?

**BYLUND:** There are cutbacks. Basically most of these cutbacks are due to enforcing and introducing limits to the social welfare system. So before 1992, there was basically no limit to how long you could live off the public sector and government subsidies. But now, you cannot go on unemployment, for instance, longer than—I think it is 300 days. That was basically unlimited before. Now there are actually some checks and controls before you get handouts. That was not the case before. So there are some very obvious differences for people living in Sweden. I don't think they have noticed the major differences or the real change in how the system actually works, and that's probably because the Social Democratic Party that has ruled Sweden for 80 years or so were the ones doing the cutbacks. And then it is legitimate for anyone who loves the welfare state. These are the Social Democrats doing the cutbacks.

**WOODS:** Well, what about unemployment itself? What have unemployment rates been like in Sweden? What are they like now or when did they peak? Have there been any disemployment effects of any of these social welfare policies as far as you can see?

**BYLUND:** That's really hard to say, because right now, of course, unemployment is really high. And the reason for that is the financial crisis. Sweden has actually been one of the strongest countries out of the financial crisis these recent years. Probably because we dealt with our own crisis in the early 1990s, so the national debt went down from 80 percent of GDP to 35 percent of GDP in only 15 years. Not so much because we paid it off, but because we stopped borrowing and we had economic growth. Sweden has not really recovered since the early 1990s in terms of unemployment. And now I think the official numbers are something like 25 percent for young people and could be around 12 percent or so for everybody, which is not a lot comparing it to other countries in Europe right now like Greece and Portugal and Spain. But it's still really, really high.

**WOODS:** The data you're talking about raises a key epistemological question for economists, because suppose we saw youth unemployment at 25 percent in 1977, at the height of the Swedish welfare state, and the general run of the population hitting 12 percent unemployment. Surely we'd be inclined to say, well, this just goes to show the difficulties of the welfare state. But over the past 20 years, when there has been at least a modest attempt to try to privatize, deregulate, lower spending—when we see at least in these financial crisis years unemployment so high, we're inclined to say that's because government is still too big. But it's easy to imagine how somebody who disagrees with our point of view might look at these statistics and tell another story.

**BYLUND:** Right, I think that is true, and I think that is one thing that the current government is actually struggling with a little bit, because the Social Democrats have been experts at hiding people in the statistics. We saw earlier, prior to 2006, a lot of people who were 25 years old and had retired. The reason was that they were in early retirement, because they could not get a job. So the government basically took them off the books and placed them in retirement. That does not go on anymore, which means that those people actually show up in the statistics now. And since the early 2000s, there's a non-socialist coalition

of parties in power. And they are trying to get people into the books, and they are struggling simply because there is a financial crisis. There are a lot of people who are hidden simply because they're put in all these programs that they're trying to get rid of. And that pushes unemployment rates up, obviously.

**WOODS:** You've written a little bit about what you're calling Sweden's Great Depression. You're talking about the problems in the 1990s that Sweden had. As happens in the United States, the blame was placed on so-called deregulation, but you found a rather different explanation, one more in line with the Austrian theory of the business cycle, to account for why Sweden had the problems in the early 1990s. So why don't you say a little something about that?

**BYLUND:** Well, it certainly looks that way. We're in the middle of a research project right now that I'm doing with two guys in Sweden, looking into what actually caused the crisis. There was a fair amount of deregulation prior to the crisis. There's no doubt about that. But it also seems that the Swedish central bank printed a lot of money prior to the big crisis. It seems like Sweden is a really good case for exemplifying the Austrian business cycle theory. We haven't really gotten to see all the details yet in this research project. But it looks very promising.

**WOODS:** The Austrian business cycle theory is familiar to almost everybody listening, but just in case, why don't you take 60 seconds to give people the *Reader's Digest* version, if I may use an American colloquialism.

**BYLUND:** The Austrian business cycle theory says that when government or banks create more money, and increase the credit in the market, that means that you will get a lot of malinvestments—people, entrepreneurs investing in projects which should never have seen the light of day, basically. And since they are investing at earlier prices, they're investing as if all the capital goods are actually out there, but they're not. And sooner or later, they're going to see how much there actually is, and they're going to figure out that all these projects cannot be completed. And then the market will see a lot of bankruptcies. It's really a theory of the unsustainable boom that is caused by increasing and ill-expanding credit, and this is exactly what we saw happen in Sweden in the late 1980s, prior to the depression in the early 1990s.

**WOODS:** Suppose you had to give a 90-second opening statement in a debate over the proposition, "The Swedish welfare state demonstrates the viability of a third way between capitalism and socialism," and you are arguing in the negative, how would you do that? Ready? Go.

**BYLUND:** That's not an easy question.

**WOODS:** Do your best. Debates never are.

**BYLUND:** Yeah, I guess that's true, but 90 seconds—I'm more of the long-essay type of guy.

**WOODS:** That'll make it more fun.

**BYLUND:** Yeah, I guess so. I mean, there's a fair amount of luck going on in Sweden throughout the first 100 years. There's a scholar at Lund University, Andreas Bergh, who's written a book on the capitalist welfare state, showing how there's basically a century of fairly good markets with good market institutions, and the government never interfered with that.

**WOODS:** Can you give us the dates of this century you're talking about?

**BYLUND:** Sure. It's 1870 through 1970.

**WOODS:** Okay.

**BYLUND:** So it's basically up to the economic crisis in the 1970s. There really is no third way or a middle ground or anything like that in Sweden. First, having a very free market and enjoying the growth of this free market, the government could expand and actually did expand very quickly, but always less than the growth in the market. And they always left these capitalist institutions unharmed and untainted until the 1970s. It was really a market society with a layer of welfare state on top. Granted, it is more like a wet blanket, but this blanket was not very thick. They made sure that this blanket was always thinner than the growth that the market created, which meant that it could actually be sustainable for a while until the 1970s crisis. Because that's when the welfare state suddenly increased very rapidly, and there was no more economic growth. That's when we finally saw the real effects of the welfare state.

**WOODS:** I'm putting up a resource page. I do this sometimes when I make a YouTube video, and I don't have time to cover every detail. So I make a page with articles and resources for people who want more information. I'm going to do one for Sweden, and so anybody who wants to know a little bit more about this, with statistics, it's going to be [LibertyClassroom.com/Sweden](http://LibertyClassroom.com/Sweden). There you'll have some links that'll be of interest to you listeners.

There's a paper that was written in the UK last year. I don't have the researcher's name in front of me right now, but I'll have that up on that resource page. At any rate, this person is saying that a lot of the favorable outcomes that people associate with the Swedish welfare state in fact either predate it. For example, high levels of equality in Swedish society and various other favorite social outcomes—these were evident before you had the extensive welfare state. Also, descendants of Swedes who came to the United States in the nineteenth century also are characterized by favorable social outcomes like a low poverty rate and low unemployment. In other words, the Swedes seem to prosper where they go no matter what the circumstances are. So it doesn't seem right to say the Swedes prosper because they had this big welfare state. They prosper anywhere.

Then there are the of moral and cultural effects of the welfare state, which I know you've written about a little bit, that you can't quantify or capture in any numbers. I read a piece that you wrote that I think conveyed this very vividly. So maybe we might close with any reflection you have on that type of issue.

**BYLUND:** I think people do what they have an incentive to do, and unless they have to work hard, and if

they can rely on others they will, and they will learn how to. If they grow up, and everything they learn is from a welfare state for generations—which is the case in Sweden—you will lose the ability to think of yourself as the only person you rely on. I think we're seeing that in Sweden right now, where everybody is just requesting assistance from everybody else, but no one is actually assisting anyone. I think that can be pushed back, and I think that is actually what is going on in Sweden right now as well ethically.

With the cutbacks—and, actually we have seen in the last five or eight years in Sweden a lot of tax cuts, and I mean real tax cuts, not just cuts in the rate of increase—people are learning to take care of themselves again, so there's definitely an ethical or moral dimension to the welfare state. If you have a nanny state, people will stop taking care of themselves. They will stop looking out for each other. And they will just wait for big mom the government to help them out. And that of course means all of the market will stop, and there will be a horrible society. Sooner or later, it will implode, and I think that is basically what Sweden did in the early 1990s. So you have to recover.

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# Fix the Economy: End the Fed

## Guest: Hunter Lewis

### October 16

*Hunter Lewis is the author of numerous books, including Where Keynes Went Wrong.*

**WOODS:** I want to start off with something that is a little bit more mundane, and that is the general question of how the Fed actually enables government growth. I think a lot of people, liberty people, believe that it does. But if you ask them for the precise mechanism by which the Fed does this, I think they'd have a hard time explaining it.

**LEWIS:** Yes, the Fed is financing the growth of government today, and government could not grow as it has without the Fed's financing. As the government goes further and further into the economy, taking over one sector after another, all that costs money. It's financed to some degree by taxes, of course. It is financed to some degree by borrowing abroad from the Chinese and the Japanese. But at the moment it's financed even more by the Fed's simply creating money and making that available to the government.

Now, of course, it's a very indirect process by which the money's made available to the government. In fact, one of the things that, of course, people don't understand is that in 2008, when the Fed rescued Wall Street, it was also rescuing the U.S. government. The government issues the bond. Wall Street buys the bond. Then the Fed buys the bond back. So in effect, it's as if the government had sold the bond to itself, i.e., the Fed. But it's indirect, because it's illegal for the government to directly sell a bond to the Fed.

**WOODS:** Do you think there's any reason it is so indirect, other than this makes it more complicated and therefore more difficult for the public to figure out what's really going on?

**LEWIS:** Well, that is a major motivation. When some of these techniques were first developed in the 1920s and the 1930s, one of the great advantages in the view of monetary authorities was that it could all be done secretly behind closed doors, and nobody would have a clue what's going on. But, it's also true that the Fed statute does not permit the Fed to directly buy bonds.

**WOODS:** That's my point. Why did they write the statute that way? I think it's to throw people off. Once you get investment banks involved, people's eyes glaze over. They don't understand what's going on. Whereas if the government directly had a printing press, then it would be, I think, much clearer to



the public what's happening. That brings me to the first section of your book *Free Prices Now! Fixing the Economy By Abolishing the Fed*. I think it's very interesting the way you've organized it, beginning with a discussion of the price system and the importance of the price system, and then you going on to explain how this is relevant to understanding the damage that the Fed does.

So can you explain the connection? Why did you organize the book this way? I think it's an interesting and compelling way to do it. Why did you do it?

**LEWIS:** Well, I think the first thing that everybody has to understand is how critical free prices are to an economy. They make it work. Consumers depend on honest prices, investors depend on honest prices. I mean, how can you make a sound decision without knowing what's going on? And honest prices tell you what's going on. So that's just essential. I mean, why is it that the Soviet Union eventually collapsed? It collapsed because it would not allow honest prices. And there was no way that it could function that way, so it was just a matter of time before it would collapse. So for some reason, we have increasingly introduced in the United States some of these same techniques of manipulating and influencing, controlling prices, that never work and that only destroy an economy. So that's the first point to be made. Then, of course, who is the biggest price-fixer in the economy? It is the Federal Reserve. It is the monetary authority, because they're fixing the cost of credit, which is one of the biggest prices we have.

**WOODS:** So what I think you're doing here, which is, as I say, quite clever, is more or less saying to people, here's economics 101 about how prices work. This is what any undergraduate would be taught about the role of prices. But we're taught to be schizophrenic in economics. Yes, we just taught you about the need for free prices. Now, on the other hand, here's the Federal Reserve, and it's indispensable. But wait a minute. What about what you just taught me about free prices? And it's like you're supposed to have two heads, two brains working simultaneously.

**LEWIS:** Well, of course the Fed does not acknowledge that it's a price-controller. In fact, Ben Bernanke met with a group of college students in Washington a year or so ago, and he gave a lecture. Lo and behold, he talked about how important prices were and what an integral role they had in the economy. And he went on a bit of length on the subject. So it apparently never occurred to him that the Fed is fixing prices.

**WOODS:** And it's not even just interest rates that the Fed interferes with. It indirectly affects all kinds of prices, and that's of course part of what leads into the Austrian theory of the business cycle—is that it will lead to prices in some sectors going up faster than others. It will lead to false signals of profitability being sent to entrepreneurs, so it has an effect all through the economic system. And yet people will say that when there's an economic downturn, we need the Fed to give us the medicine that the economy needs. Yet you have two chapters here in *Free Prices Now* on how Dr. Fed makes the patients sicker. So you're saying that the problem is the medicine itself?

**LEWIS:** Yes. I remember back in 2009, I was talking to the BBC, and they said, "But Mr. Lewis, how can you suggest taking life support from the patient?" And I said, "No, I'm not taking life support from the patient. I'm just taking away the alcohol from the alcoholic or the morphine from the addict. That's



quite different.”

**WOODS:** Let me put it this way. It seems, superficially, that when you have an economic downturn it might be a good thing to create some money, inject some credit into the economy to try to get activity going again. You’ve got a lot of resources that are idle, factories that aren’t being used, human beings who are idle who have talents that aren’t being exploited—so it seems like it’s like a pump. You just pump it up. Or it’s like a crank that you turn, and it gets the system going again. What’s wrong with these analogies?

**LEWIS:** Again, without honest prices, everybody is confused, and everybody makes bad decisions. John Stuart Mill, who was perhaps the most famous economist in the nineteenth century, outlined the problems more than 100 years ago. We’ve known this for a long time, and yet we keep making the same mistake, completely to sabotage the economy by destroying the price system on which the economy depends. Why is it that after thousands of years in which the human race made no progress economically, there was absolutely no economic growth, we finally started to have some economic growth in the period that we call the Industrial Revolution? It’s because there were reforms that enabled prices to be a bit freer than they had been before, and yet now were going the opposite direction of trying to fix and control prices even more.

**WOODS:** How do you apply this type of analysis to the housing bust and the financial crisis of 2008?

**LEWIS:** Well, it’s the same thing. The primary cause of the dot-com bubble and then the housing bubble was too much money being printed by the Fed and other central banks. And of course, that money in the housing bubble, much of it went into housing. So of course that blew up the housing market. That made people working in the housing sector feel very good for a while until the bubble burst, and then they became unemployed. That brought millions of people into housing-related industrial work, where they eventually found that everything they had learned was useless, because they couldn’t get any further work during the bust. It completely destabilized the economy in one way after another.

**WOODS:** What about the argument, though, that if we didn’t have the Fed creating money, the natural tendency on the market would be for prices to fall and we need to counteract that? Because if we have price deflation this leads to all kinds of ancillary problems, the conventional wisdom goes.

**LEWIS:** Well, of course that’s a complete fallacy. When the price of a computer comes down, and we get a better computer for less money, that’s a good thing. And the people that it helps the most are the poor, because they have the least money, and the prices are going down, and that helps them. So we all ought to be aiming for gently declining prices produced by greater and greater economic productivity and better success. The other thing that is worth thinking about is that if we have an efficient part of the economy like computers, for example, where prices are declining, and if the Federal Reserve says we require that prices go up at least two percent a year, what kind of inflation is going to be needed in the less efficient parts of the economy to offset the price declines in the efficient part? You end up calculating that to get to a two percent overall inflation rate if prices are going down, say, three percent in the

more efficient sector, you probably need seven percent inflation in the less efficient sectors. So when the Fed says we want at least two percent inflation, they're really saying we want seven percent or more in much of the economy.

**WOODS:** That's an interesting point. So, in other words, to offset the sectors of the economy that are efficient enough to have falling prices for there to be an average of two percent inflation, we need to overwhelm that, and in effect, what we're doing is propping up the less efficient sectors of the economy. What about, though, somebody who's said to you, "Look, Lewis, you pretty much got everything you want already." And by the way, I get this a lot. I get this a lot. People will say you have a free market. You have a free market in banking. Sure, they have to get a government charter or whatever, but we have competing banks, and they can establish whatever banking policy they want. So you have free banking. You have private property. So what's your gripe here? You're already living in the libertarian paradise.

**LEWIS:** Well, of course we don't have free banking at all. We don't have a free market in banking, and we haven't for years and years. There are no free prices in banking. Almost all prices in banking today are made-up prices. They're just made up by government regulations, controls, rules, agreements. In 2008, when we had the crash, the single precipitating factor above all was probably a new bank regulation called mark-to-market. On the surface, that sounded good. It was a regulation that banks needed to price their assets using market criteria. But of course it was nonsense, because there were no market prices in banking. It was impossible, and so it basically was just poking a big stick into the wheels of the system. Even a bigger stick than had already been poked in there, so the system went into arrest. It couldn't handle that, and in fact, the very month that the economy stopped crashing was when they finally tabled mark-to-market rules.

And of course, Ben Bernanke was one of the biggest proponents of the mark-to-market rules. I think Steve Forbes called mark-to-market rules, "Mark to make believe," but all of the banking prices are make-believe. And you remember that when we had the collapse in the mortgage market, and the government said, "We've got to get these bad mortgages out of banks," they developed this subsidy program where they went to Wall Street and said you buy the bad mortgages, and we'll basically provide the money. And we'll ensure that you make a profit. Wall Street didn't bite. They still wouldn't buy the mortgages. Why not? Because there were no valid mortgage prices. They had no idea what those mortgages were worth. There was no mortgage market.

**WOODS:** In *Free Prices Now* you do give us an idea of what kind of reform would be useful. So if I gave Hunter Lewis the keys to the whole system, and I said you could reform banking in any direction you want, and you can reform the monetary system likewise, what would you do?

**LEWIS:** Abolishing the Fed would be a good first step, and we have to remember that we didn't have a Federal Reserve for most of American history after Andrew Jackson succeeded in getting rid of the second central bank and the earlier one. Early in the nineteenth century we didn't have a central bank for many years, and the economy actually did better during that period of time. So that's a start. And then the other necessary reform to do something about banking is to return it to a free market, to no longer

have it just be a stepchild of government, whose primary role is to help finance government through its borrowing, but instead to actually help the economy.

**WOODS:** How would things look then? For the average person to try to understand this, how would their lives be different? How would they notice a change in a Hunter Lewis society? What would their money consist of? What would it look like? Would it be gold and silver? Would it be paper? Who would be issuing it? How can you fill in some of the blanks for people who might be sympathetic but just have a hard time visualizing it?

**LEWIS:** First of all, what I'm concerned about is poor people and the middle class. They are the people who are absolutely taking it on the ear today. The middle class is collapsing. Their real incomes are collapsing. The poor have very few prospects of pulling themselves out of poverty because of the system, the way it's been run today. It's all favoring a group of people who are closely connected to the government that are getting richer and richer, while those people do so badly, so we really do need fundamental reforms. Now, what would money look like under a new system? The market would decide that. The market is perfectly capable of developing money just like any other product.

**WOODS:** Do you think there's a particular type of money that winds up victorious in free-market competition, or is this just a matter of having to wait and see?

**LEWIS:** Most likely it would have some link to gold. Perhaps it would be gold, because gold has thousands of years of history as a currency. And it's not something the government can just print at will, so it probably would have some gold basis. But it's better for the market to figure it out and to produce the best product just like in any other field.

**WOODS:** You wrote an earlier book called *Where Keynes Went Wrong*. In our closing minutes, can you pinpoint what you consider the one central fallacy that you think drives the whole Keynesian system?

**LEWIS:** Well, yes. These Keynesian fallacies are driving the system. They're driving economic policies around the world, and let's just start with this one. First point from Keynes is too much debt causes a crash. Load on more debt. Secondly, taking on more debt will help reduce debt. These are all paradoxes which defy common sense, which in fact have no factual or logical basis. Of course another good one is borrowing and spending rather than saving to create prosperity. We all know that borrowing and spending is a way to go bankrupt, not to create prosperity. And yet, national policy is based on it today.

**WOODS:** Because there's been this revival of Keynesianism after the financial crisis, there are Keynesian preconceptions all over the media and all over the national discussion of economic questions. So the discussion always winds up being what type of stimulus should we have. Which is of course the wrong question.

**LEWIS:** Yes, and the other thing that I find very interesting is that the leading Keynesians—someone, for example, like Shiller, who just got to know a little economics yesterday—that none of them ever

offer a defense of Keynesian doctrine. They don't explain the factual basis for it or a logical basis for it. They just assume that it is correct, and they assume that anybody that challenges it is a crank. Not only do they assume that it's correct without any proper defense of it, but they're always so imprecise about what they recommend. They say they want more stimulus, or they want more money printed or whatever. They never say how much deficit spending or how much money printing. It's all very vague.

**WOODS:** I know this is not covered in your book, but I can't help asking just because it's come up a little bit in the news recently. There's been talk about government default, and we all know there isn't going to be any government default. This is just political theater as always. But there have been Austrians who have suggested that there is a good economic or at the very least moral case for in fact defaulting on government debt. Where do you come down on that?

**LEWIS:** We have to remember that as Jim Grant pointed out in a *Wall Street Journal* piece recently, we're already defaulting. First of all, the U.S. government has defaulted in fact at earlier times in U.S. history. But what we're doing right now is just a stealth default in which you borrow money, and you pay back money that buys less in the future. So we're already defaulting, and we seem to be on a path in which we're going to default more and more but as stealthily as possible so that it is isn't obvious that we are defaulting while we are.

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# Lew Rockwell Remembers

## Guest: Lew Rockwell

### October 17

*Lew Rockwell is founder and chairman of the Ludwig von Mises Institute and editor of LewRockwell.com. He also served as chief of staff to Ron Paul, and was the executor of the will of Murray N. Rothbard.*

**WOODS:** This is going to be a little bit like a stroll down memory lane, because you've known a lot of significant people in the movement: Leonard Read and obviously Ron Paul, even Ludwig von Mises to an extent and of course Murray Rothbard. These are all people who are of great interest to listeners.

**ROCKWELL:** Well, and rightly so.

**WOODS:** So let's start off with that. First of all, let's stroll down memory lane. How did you first enter the libertarian movement? Who were the people you got to know right at the outset?

**ROCKWELL:** I guess if we can think of the pre-libertarian movement, I would credit my dad. He was a strong Taft Republican, and in fact, my first political memory is from Taft's campaign against Eisenhower for the Republican nomination in 1953. I remember my dad pinning a Taft for President button on my coat. I sort of was inculcated early on. I don't know if I would call my dad a libertarian, but he definitely was a noninterventionist in foreign policy and a free-market person. And he was a surgeon. In those days it was illegal to be a chiropractor, for example, in Massachusetts. So all the chiropractors practiced right along the border in New Hampshire or Connecticut on the Massachusetts border. He was an advocate of chiropractors being able to practice, of midwives being able to deliver babies without going through a gynecologist, and so forth.

So I would credit him, and it's really he and some of his good friends who were responsible for giving me the books that I would say led me to have similar ideas. I was sort of notorious in school, but I can remember in the seventh grade, long before the Civil Rights Act of 1964 was passed, my history teacher advocating that sort of a law, and I can remember arguing with him. I didn't have logical arguments at that point, but I remember saying to him, "It just seems to me wrong; if somebody owns a business, why can't they be in charge of who comes in and who doesn't?" I couldn't see why having the police make that decision was better than having the owner. I guess from very early on. I know Ron Paul always says

that he thinks at least most of us are born libertarian, those of us who are libertarians. And that it's just a matter of discovering the various ramifications of our already existing orientation.

**WOODS:** Well, it's interesting that so early you latched onto an issue that so many people who claim to be libertarians want to run a million miles away from, namely antidiscrimination law. But that really is the issue among libertarians, isn't it? It's the question of what the roles are of the state and society. And antidiscrimination law claims that the state has the right to play all kinds of micro-level roles at all different levels of society, from employment to private socializing. And you don't have to be a bad person to say no, I don't want violent means used to force people together who don't want to be together.

And so one thing I really liked about Ron Paul, of course, is that he could have shut a million people up by just saying, "You know, you're right. I favor antidiscrimination law. Now let's just move on." It would have saved him so much grief, and yet he just said, "No, it violates principles that go back to John Locke. And you can derive all my views of property and liberty from that, and it does not include the power of a state to do these sorts of things." I think even though he said things that were unpopular, you know what? In a paradoxical way, it contributed to his popularity.

**ROCKWELL:** Well it's true, and I like the point he makes: just because bad people might use freedom of speech is hardly a reason to abolish freedom of speech, and in fact, if we're interested in defending freedom of speech, then it is the so-called bad people whose rights we need to defend.

**WOODS:** That's true.

**ROCKWELL:** The same with property rights. Maybe we don't like what somebody's doing with their property rights, but as long as they're not offending against somebody else's rights, leave them alone or maybe as a matter of fact defend them.

**WOODS:** And of course we extend basic customary legal protections to people who are bad or who are openly guilty. This doesn't mean we like these people. It means that these are the values of a civilized society.

All right, let's fast forward a bit. You did know Leonard Read for a time, is that right?

**ROCKWELL:** I did know Leonard, and I had subscribed to *The Freeman* like many people all during high school—and when I went to work for Arlington House, run by the great Neil McCaffrey, a great entrepreneur, just a great man in general. And this was the only publishing house in America at that time that would touch libertarian or conservative books, and it was the publisher of Mises, for example. I'll never forget Neil McCaffrey calling me into his office and saying, "Would you like to be Ludwig von Mises' editor?" Here I was a very young kid, and of course, I was bowled over and thrilled. So it was through that connection and when I was first living in New York that I got to meet Leonard in person. I'd known him through *The Freeman* before that.



So because of my connection with Mises, I spent a lot of time at the Foundation for Economic Education (FEE), and I thought the world of Leonard Read. He was a great leader, very charming, great-looking guy, very well spoken of course, and just very funny, full of jokes, and yet very profound, so he was a great man. He held a reception when Arlington House for the three books that I'd worked on and also a new monograph—Mises's *Omnipotent Government, Theory and History*, and *Bureaucracy*, and also a monograph on the historical setting of the Austrian School which was new. And in fact, just as a slight aside, I'll never forget opening the brown envelope and taking out this new manuscript from Mises. I mean, just obviously a tremendous thing. So Leonard held this reception in honor of these three books, at the old FEE mansion in Irvington on Hudson, now sadly gone. FEE no longer has that. But they had a dining room, so I had a tray from the kitchen. I walked into the dining room, and the only people sitting there were Ludwig and Margit von Mises.

**WOODS:** Oh, gosh.

**ROCKWELL:** And so I thought, do I dare go over there? And I said, well, because I have to go over there. So that's the one time I met Mises. I talked to him on the phone, and I spent a lot of time on the phone with Margit then and subsequently in person with Margit. But that was the only time I ever met him, and it was of course one of the great experiences of my life. That was Leonard who made that possible, and then later I find out just several years ago from Ron Paul that the thing that made Ron offer me the job as his chief of staff was that Leonard had called him and recommended me.

**WOODS:** Yeah, I heard about that. That's a real compliment, absolutely. And I realize just now while we were talking, Lew, that sometimes we're in such an inside-baseball world, that we forget there are young people who may not know who Leonard Read is. He is considered to be one of the sort of god-fathers of the movement at large.

I'd like to know, and I think other people would, too, how you met Murray Rothbard. This would be the sort of person somebody would love to know personally, and you had the chance to work with him so closely for so many years. How did it get started?

**ROCKWELL:** I will say that he was not only of course such a brilliant scholar and such an unbelievably productive scholar, such an important scholar in so many ways, but he was just a great guy. I mean there's nobody on earth you would rather have a beer with. He was so funny, so interesting. You just immediately loved him. And so I had first met him when Arlington House published his *Conceived in Liberty* series, now published by the Mises Institute. It's the history of colonial America, which is quite wonderful like all of his books. But I didn't really get to know him well until I started the Institute, and I approached him: would he be in charge of our academic affairs? At this point, of course, it was only a letterhead organization. But I've never forgotten. He literally clapped his hands in glee at the idea of a Mises Institute.

**WOODS:** Beautiful.



**ROCKWELL:** It just thrilled him. He was very generous with his help and his time and his advice and his example, I might say. When I started the Institute I talked to him every day, and in addition to everything else, he was like a standup comedian. You were never in Murray's presence, whether it was in person or on the phone, for very long before you're laughing out loud. He was so funny and so humble, too. Murray was not a Christian, but I always think of the example of the Christian ideal of humility, which is not to be abasing yourself or you know, some things some other people might think. But he really was open to everybody, interested in everybody no matter what their status was. If they had the slightest spark of ability, he was trying to fan the flames.

I think of Milton Friedman as being the opposite. Milton was so arrogant and so nasty to anybody, say any student that asked a question he didn't approve of. He just loved to crush people. Murray was nice to everybody and very open. He was glad to talk to anybody, and just—he didn't put himself on a pedestal by any means, even though he could have put himself on a pedestal. And of course, so smart: he knew everything so far as I could tell. I don't care whether we were talking about art or theology as well as economics and history.

**WOODS:** The postmillennials and the premillennials.

**ROCKWELL:** Yeah. And he also thought that most economists neglected the importance of religion, for example, and he absolutely did not. Because they weren't religious so they disliked religion, so they never wanted to consider its role in history. But obviously, it's a very key thing. So anyway, he was open to people who didn't agree with him, but he never was shy about stating his own position. He could change his mind if somebody had an argument he respected. He loved to have people who were harder core than he was try to refute him. But he was charming, sweet, fun, and I'll just tell one quick story that sort of sums up his abilities in a number of ways.

He rented Sidney Hook's house, of all people, at Stanford for the summer. He was working at Institute for Humane Studies when Baldy Harper was still running it in California. And so a friend is visiting him, and the friend said, "So, Murray, I'm looking forward to seeing you at Cato next week." This was the Cato Monetary Conference before they kicked Murray out. And Murray said, "That's not next week. It's a month from now," or whatever. And his friend said, "No, no. It's next week," so Murray checks with Joey who is sort of the realism principle of the household. And she said, "No, no. It is next week," so Murray excused himself, went into the other room—and this is his paper on New Deal monetary policy, typed out the paper in one fell swoop, including bibliography and footnotes. And so he had written the whole thing in his head.

**WOODS:** And that's a great paper. I've read it.

**ROCKWELL:** Of course. But that was the kind of ability that he had.

**WOODS:** And you know the thing about him, Lew—the reason we speak about him so fondly—is that people who got to know him, and I only knew him a little bit, but I met him four or five times and talked

to him on the phone and stuff like that. But we had a real affection for him. It wasn't that we worshiped him or any of the nonsense they say about us, and yet, what's so funny is that although people say "You guys worship Rothbard," yet I actually have seen, I'm not going to mention his name, but he's with a very well-known think tank—I've seen a picture of a guy posing with a *photograph* of Milton Friedman. Now I've never posed with a photograph of Murray Rothbard. They take the Friedman admiration to absurd lengths. Now nobody denies that Milton Friedman was very articulate and a very skilled debater and he had many merits.

**ROCKWELL:** Very smart.

**WOODS:** No one disputes that, right? But why is it, then, that people can't give the equal share of respect to Rothbard? Why is Rothbard like the un-person? I think I said this on your podcast one time. I was going to say that for every 100 times they mention Milton Friedman, Rothbard gets mentioned once, but I would say it's more like for every 100 times we hear Friedman it's zero times we hear Rothbard. And you look at his corpus of work, and none of these people at these institutes in their entire lives are going to do one one-thousandth of that. Why does he not even get a fleeting reference?

**ROCKWELL:** Well, I think it has to do with the old paycheck question, because for whatever reason Charles Koch—and he's the only intellectually significant member of the Koch brothers—Charles Koch for whatever reason became a Rothbardian and then became a non-Rothbardian. And once he became a non-Rothbardian, anybody associated with him in his broad empire of so many organizations and so many people on the payroll—and of course an infinitely a larger number of people want to be on the payroll—had to hate Rothbard. So I think it's as simple as that. Maybe there's envy involved. You know, you can't look into people's hearts. I'm suspicious of that, but I can't know it. Just because everything seemed to them to come so easy to him, although he worked like a dog.

I mean he worked every day all day long. When he wasn't sleeping or teaching he was working. So I mean that's part of Edison's line about more perspiration than inspiration to be a genius. Well, Murray put out the perspiration. But I think it fundamentally comes down to the fact that if you want to be on the Koch payroll, if you want to be on the payroll of one of these many organizations and publications that are within the Koch ambit, you have to hate Rothbard. I'm afraid I think that's the reason rather than any intellectual rejection of Murray.

**WOODS:** But that I think goes a long way toward explaining why in so-called official and respectable circles you don't see mention of Rothbard, but in the real libertarian heartland, let's say when you actually go to events around the country that are outside of D.C., everybody loves Rothbard. Everybody's wearing the Rothbard "Enemy of the State" shirt. They're reading his books. They're learning from him. Everybody loves him.

**ROCKWELL:** Well, it's one of the many great things about the Internet. There was a time when the fact that at the Cato Institute they hated Murray's guts would have an influence on whether people would dare to cite him or read him or whatever. There was a funny event when somebody, an anonymous guy,

I think I know who he was, writing for *The Economist*, said, “Really, what’s wrong with the Ron Paul movement is that they pay attention to Rothbard. If only they would substitute Friedman, why everything would be fine,” which of course would be the Keynesian economist view, because Milton Friedman was, by the way, a Keynesian among his other attributes.

So I wrote a blog post noting outside of strictly academic circles, I thought Friedman was disappearing. I just didn’t think that he had the influence among libertarians that he once did and that Rothbard was vaulting ahead. So somebody on David Friedman’s blog was upset at my comments. And of course, it was his dad. I can’t be upset at him for being upset. Somebody said, “You know, this is really unfair, because Milton Friedman’s books are all very expensive, and you have to buy them in hardback. It’s unfair, because the Mises Institute has put all of Rothbard’s stuff for free on the Internet. So it’s not fair competition.” So I thought, well okay, but of course, here’s where I was correct in one sense. Murray is so compelling. He’s so interesting that they can’t suppress him, and not only can they not suppress him, it doesn’t matter to the extent they tell students don’t read this guy, why of course they immediately want to read him. So he’s a vastly bigger figure than he was during his lifetime.

And there was a column the other day by Bruce Bartlett, who used to be an Austrian, writing for the *New York Times*, and he’s writing about the whole idea of defaulting on the federal debt, which of course Murray advocated that you have to default on it, because the people who contracted for it and benefited from it are not the ones who are being forced to pay it. So from a matter of justice and many other reasons. But he quoted Murray in his article. So the paragraph from Murray again just jumps off the page at you. I mean, it’s so vivid and so interesting, and thank goodness, Bruce, to give him credit, linked to Murray’s article about defaulting on the debt.

So it’s just another example: Murray never would have been quoted in an economics article on a blog at the *New York Times*. Things are changing. Murray is a huge figure all over the world. His works are read everywhere, and he really is our most powerful engine in terms of getting students and others interested. Obviously he stood on the shoulders of Mises and of course credited Mises for everything. But Murray, in terms of interesting kids, he’s the guy. It’s so thrilling. It’s so moving to see him so broadly loved and as you say, whether it’s in the libertarian heartland, whether it’s among students at colleges and universities, whether it’s in the Ron Paul movement. I can remember you mentioning Rothbard at the Ron Paul Minnesota rally and getting cheered for mentioning Murray’s name.

**WOODS:** Yeah. That’s a different world.

**ROCKWELL:** The world is different.

**WOODS:** Right and it’s a world I only wish he could have lived to see. And of course people who are listening to this, Lew—you had an article not too long ago, and it was simply called “Read Rothbard.” So if you’re wondering how do I jump in, the guy’s written so much, what’s my natural entry point, I would just Google Lew Rockwell and “Read Rothbard,” because that’s a pretty good program for reading. But I don’t want to keep piling on here on Friedman, because people will accuse me of having some kind

of vendetta or fixation. I don't. I just don't like weird, cultish behavior, and this cutting off of Rothbard and favoring Friedman when, in all the areas where they differed, Rothbard is vastly better from the point of view of scholarship and libertarianism, is weird and wrong. He's vastly better, but what I find, Lew, is not only that Rothbard is the more influential figure when you just talk to ordinary libertarians. Yeah, some of them will mention Friedman. I read *Capitalism and Freedom*, or I read *Free to Choose*. There's some good material in those books.

**ROCKWELL:** Yes.

**WOODS:** But very few of them are going to say they read Friedman's article on methodology in 1953, or any of his technical stuff on monetarism. That's got almost no traction whatsoever among libertarians, whereas the theoretical economic work of Rothbard has gotten plenty.

Given that we're running a little low on time, I do want to give you a chance to say a little something about the Mises Institute. Some other time we'll talk about the travails of founding the Mises Institute and all the difficulty. You would think that would be an easy thing, or it would have its difficulty starting from scratch. But you'd think everybody would be friends on this, you'd have a lot of allies in this. The real story, I think, is quite interesting.

At any rate, let's suppose the Mises Institute—I don't know, all of a sudden its budget doubled overnight. What would you do? What would you like to see the Mises Institute doing that you hope someday that it can do but isn't doing today?

**ROCKWELL:** Well, I think the Institute represents the future of higher education. I think that the bricks and mortar universities—with what the federal subsidies to higher education have done to the cost of education. Ron Paul worked his way through college. That sounds like science fiction today. Nobody can work their way through college, and so what they've done, just exactly with medical care, they've made it impossible for students. So the students have these horrendous debts, and the colleges and universities by and large are just either teaching error, or they're teaching the official boring view of stuff. Boys are being taught that they're the scum of the earth, and they're responsible for everything evil. And it's one of the reasons fewer and fewer boys are going to college.

So there are many other reasons why Peter Klein points out that colleges and universities still have the same production model that Aristotle did. A guy at the front of the room talking to a bunch of kids sitting down. So there are different ways to do it. I think the Mises Institute is at the cutting edge of those different ways. I think young people are sick and tired of these long five- and six-year terms of college. They make it so difficult to get all the courses you need. You end up with these horrendous debts that can never be paid off. But there's another way to do it, and we see with the online courses and where companies are more and more considering certificates from these online courses to be as good as college credits. They take it very seriously. They're taking Professor Thrun's online course on robotics, which the first time they gave it had 160,000 students. That's when he quit his job, a tenured full professorship at Stanford, to go into alternative kinds of education.

The elite schools are not going out of business. Maybe the big state universities aren't going out of business. But there are a lot of colleges and universities that are feeling the ground moving under their feet. And they're worried about the future, and they should be worried. So I think what I would like to do is turn the Mises Institute into this private online and campus-based university of the future for Austrian economics, libertarianism, and history and political science, and all related areas, where we'd give certificates. Can't give degrees, because the whole government enterprise makes that impossible. But you can certainly give certificates, and as I say, businesspeople take these certificates maybe more seriously than credits from a college or university. So I'd like to keep up what the Institute is doing right now in terms of educating students, publishing books, publishing journals, bringing back the classics that have been unavailable for free, all that sort of thing, but I'd like to see us become really the Mises university for students all over the world who are interested in learning real economics, real history, and other subjects.

**WOODS:** Well, Lew, that is a very exciting prospect that I hope to see come to pass.

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# Murphy Answers Questions II

## Guest: Robert P. Murphy

### October 18

*Bob Murphy holds a Ph.D. in economics from New York University. He is the author of Chaos Theory, The Politically Incorrect Guide to Capitalism, The Politically Incorrect Guide to the Great Depression and the New Deal, and Lessons for the Young Economist. He blogs at [consultingbyrpm.com/blog](http://consultingbyrpm.com/blog).*

**WOODS:** All right, Bob, so another year, another Nobel Prize announcement, and once again Murphy is snubbed. Can you try and make sense of the Nobel Prize winners for us? You were speculating that there was, if not a contradiction, then something kind of funny about Eugene Fama and Robert Shiller both getting it, but maybe it's not so much. Is it like a Myrdal and Hayek situation? Who are these people and is there any reason we should be pleased with this?

**MURPHY:** Well it's a great question. I think they're snubbing me just because I'm kind of young. They wouldn't want the older guys to feel bad; the upstart kid gets it.

**WOODS:** That's how I took it.

**MURPHY:** Yeah, so I give them that. I just hope I don't get hit by a bus before my work is appreciated.

So as far as the Nobel, what's funny here is this is another area where the Austrians seem to have a broader historical context. Because I'm pretty sure the way Paul Krugman handled this was to make a joke about, "Yeah, in economics it seems like the Nobel Prize goes to people who not only have different theories, but, in the same year for the same award, where they contradict each other." Of course, that's what Austrians have been saying since 1974, is what you were alluding to [by mentioning Myrdal and Hayek]. As far as this year's award, it's funny. There's a lot of free-market people who are saying they got it right this time. I love Fama. I've been waiting years for Fama to get it, and of course, guys like you and I are biased, because we liked the Austrians. Fama is prototypical Chicago School in this respect.

As far as what's the apparent contradiction, just for your listeners who don't really know: Eugene Fama is considered arguably the father of what's called the efficient markets hypothesis. Loosely speaking, that means that at any moment asset prices reflect all publicly available information. You can't beat the market. It's silly to put your money with a fund manager who's picking stocks based on some mechanism



that he uses or someone who follows technical analysis and looks at the charts and says, “It’s a head and shoulders [pattern], and that means the market’s going to go down tomorrow, so I’m going to sell and get out in time.” So all that kind of stuff that the wizards think that they can do, and that’s why you should give your money to them and pay them huge management fees—the claim is that Fama kind of blew that all up by saying, “No, the market’s efficient.” People have heard that there’s a random walk in terms of stock prices, so this is where all that comes from.

Fama’s not the first guy in human history to remark on this stuff, but if you had to pick somebody who’s the founder of this idea, it would be him. And so then Shiller, who also shared the prize and then also Lars Hansen did—Hansen got it more for his econometric work on studying asset prices and things like that, and I’m not really totally familiar with his work; I can’t comment much on it. But Shiller, his work again, the layman can take it away saying that Shiller was documenting ways in which the market in general and financial markets in particular are not completely efficient or rational in the sense that neoclassical economists use those terms.

So this is the sense in which it’s odd. On one hand it’s almost as if the Nobel Committee is saying, and again it’s not really the Nobel Prize [TW note: We explain this below], but Fama is being awarded for his work in showing how the stock market is efficient. You can’t beat the market and so on. Don’t even try. And then Shiller’s being awarded in the same year, sharing the same prize, for his work in showing all the ways in which Fama is wrong. And so that’s the irony, and people can hash that out as to whether that’s a fair statement or not. Some people have made this analogy: “Well, suppose Isaac Newton and Albert Einstein happened to be alive at the same time. Would it be so crazy for them both to win the Nobel Prize in physics for their work in understanding the behavior of matter and energy when there’s a sense in which Einstein overturned Newton?” So that’s the analogy some people are making, and we can speculate on that.

But as far as whether it is a good thing, all I will say is this. Clearly the efficient markets hypothesis—that strain of thought—has been used by a lot of economists when discussing the housing boom years and so on, to even come close to denying that there was a housing bubble. So not merely saying, “Well, how could anyone have known that in real time?” At Mises.org I have an article called “Bursting Fama’s Bubble” that came out a few years ago, where he was saying that I don’t even know what you mean by the word “bubble,” because to have operational meaning people would have to know it in real time. And if you knew that there was a stock market bubble in progress or a housing bubble, you would short the market, and that would end the bubble. So they’re using these kind of like quick, glib arguments to prove that bubbles are basically impossible. At least in any practical sense. And that’s just silly, as anyone familiar with the Austrian School would recognize.

**WOODS:** And that’s why I think it’s not a good thing for Fama to get this. Because I think the efficient markets hypothesis almost comes off as a caricature of free-market belief. That the market is so efficient, in his kind of way of speaking, that you can’t possibly have a bubble, because the market would have taken it into account. By the way, can you elaborate on one small subtlety in your remark? You said, “It’s not really the Nobel Prize.” Not everybody knows what you mean by that.



**MURPHY:** You're right, Tom. The reason I even said that is because whenever I refer casually to the Nobel Prize in economics with no quotation marks or any caveats like that, you'll get people in the comments who jump all over you and say, "No, no, no. Alfred Nobel did not set up the prize in economic sciences. That was instituted later by the Swedish Central Bank, and it's the Nobel Memorial Award in Economic Sciences," or something like that. They bring it out at the same time when the other genuine Nobel Awards are given, but actually the economists who win it are not receiving something that was endowed by Alfred Nobel. And that's interesting in and of itself, because as Austrians have said, it's the mainstream economists who have this pining. They want to be like the physicists. They want to be real scientists, so this is kind of another example of that.

**WOODS:** All right. I have a question that I want clarified, because I think a lot of people are confused about it. So I'm going to ask it on behalf of the general public. And that is a question that is answered in a basic economics course you would take in college. It deals with the subject of a strong dollar, a weak dollar, and exports. We hear it said that we shouldn't want a strong dollar. You want to have a weak dollar, and you want a situation in which exports from your country are favored. And that comes about by manipulating the money and all that. Can you sort out exactly what that's all about, and how it can be that in the long run you can in fact boost your exports by manipulating your currency? Or is this only some kind of short-run effect? And if so, give us an example of how that works.

**MURPHY:** Okay, that's a great question. So the very short-term, narrow perspective where these people are coming from involves saying, look, when foreigners are trying to decide whether they want to buy things domestically in their own currency, or they want to, from their point of view, import it from the United States—so from our point of view it's exports. They've got to look at the prices, and of course, they can't just look at the price that's on the sticker in their country and our country, because they're using a different currency.

So if people in France, let's say, are thinking about buying wine there, they'll see how many euros it is, and then they'll look at a similar bottle of wine that's available in the United States that'll be quoted in dollars. So for them to be able to compare the two to say which is cheaper, obviously they need to know what the dollar-euro exchange rate is. And so that's the sense in which, if you held everything else equal and then all of a sudden the dollar weakened against the euro, well, then the people who hold euros now can buy more with their euros in goods that are priced in dollars. And so, other things equal, as the dollar weakened, they would be able to buy wine from the United States more cheaply than wine from France, and so you would see more exports of wine to France.

The problem with that, though, is, why did the dollar weaken? If the dollar weakened because Bernanke just announced we're going to increase the rate of creation of the U.S. dollar, other things aren't going to remain equal. That's going to push up the dollar price of goods in the United States. And so it's going to be a wash in the long run. This is a simple, crude thought experiment: if they doubled the quantity of dollars, roughly speaking, you'd say, okay, the dollar-euro exchange rate will get cut in half, and so people holding euros can now buy twice as much stuff, but then everything in the United States quoted in dollar bills is now twice as expensive when you're looking at the sticker.

So I'm simplifying there, but I'm just trying to get you to see the insight that depreciating your currency is not a method of promoting exports in the long run. If you think about it, there's a sense where in the long run a country pays for its imports with its exports and vice versa, and so it's not that you're going to fool foreigners into buying more of your stuff than they really wanted to in the long run. Certainly not by debasing your currency. That's not the path to prosperity.

**WOODS:** So, in other words, eventually the market figures out, "Wait a minute. No fundamentals have changed. It's just that one country manipulated its money, and then prices will wind up adjusting so that there will be no benefit that you could get from being in one currency as opposed to another." Am I right?

**MURPHY:** Right. I think that's the way to deal with the primitive, naïve argument that all we need to do is weaken the dollar, and that's how we're going to promote exports. So there are complications that come with that: strictly speaking, it's not just goods in the sense of finished products for consumers to use. There's also financial assets. And so if people around the world wanted to invest in U.S. assets, then we could afford to have a trade deficit which would not weaken our currency, and so there's various complications like that. But yeah, the way you just summarized it, I think that's the first thing you've got to realize when somebody says just very naïvely, "Oh, we don't want to have the dollar be too strong, because then we won't be able to export anything." You have to ask yourself, why is the dollar so strong? And certainly in the long run, if the U.S. for example were on genuine commodity money, it's true that, the currency, if you quoted it in terms of that commodity money, would presumably appreciate year after year against all the fiat currencies of the world, but that wouldn't spell disaster. Once people got used to that new equilibrium, the prices of goods in the United States quoted in that commodity money would probably gently fall over time—what some people refer to as good deflation. So again, there would be a wash there. Yeah, the other people holding fiat currencies, whatever we were quoting it in, it would get weaker and weaker—but then by the same token, the sticker prices here would gently fall to counteract that.

**WOODS:** Well, let's talk a minute about China, because we always hear China's manipulating its currency to benefit its export sector. Is it doing so? And secondly, given what we've just said that at least in the naïve version you can see how eventually there'll be an adjustment, and there won't be any long-run benefit to doing this—in order to have a strategy like this wouldn't you have to be constantly debasing your currency? Debasing it, debasing it, and eventually the market's going to anticipate a further debasement and adjust prices ahead of it. Wouldn't any alleged benefit coming from this sort of strategy exhaust itself?

**MURPHY:** That's a great question, and I'm glad I sort of hedged myself there and said it gets a little bit more complicated when you bring in financial assets. With China, there are two things going on: they're creating money in the yuan, and they're using that to go into the currency markets to trade their currencies against dollars and then use the dollars to buy U.S. Treasuries, which would be bonds issued by the U.S. federal government. If you think about it from one perspective in terms of the international trade flows in accounting, in a sense the reason the United States is able to consistently buy more goods from China than China buys from the United States is that China is also mopping up more of our financial

assets than vice versa. And so that's where the gap is filled. So the balance of trade or the balance of payments always does balance when you include financial assets.

So back to your question: Is China deliberately weakening its own currency? Because if you think about it, why would it weaken their currency? Because for them to do that, for them to consistently buy more financial assets from the U.S. than vice versa, that means they have to go into the currency markets with their currency and buy dollars with it. So that makes the dollar stronger against their currency than it would be if they stopped doing that. And so it's funny, people simultaneously are worried that China might try to threaten us by not buying more of our debt. They have us over a barrel if they ever threatened in an international standoff to save the U.S. You know what? We're going to stop financing your federal government's deficit if you don't play ball with us in terms of foreign policy.

So on the one hand people are mad at China at that, and on the other hand, the same people often complain that China is deliberately weakening its currency in order to promote its exports. But those are two sides of the same coin. The way they are allegedly weakening their currency by not letting their currency strengthen against the dollar is that they go into the currency markets in order to buy U.S. dollars, so they can keep sopping up our government's debt. So, I don't know exactly what's in their heads. I think part of it is they saw what happened in the Asian financial crisis in the late 1990s, and they said, "We don't want to be vulnerable in that kind of situation. So we want to have an ability to assure investors around the world that our currency is as strong as the dollar. So we want to build up dollar reserves, so that if for some reason there ever were a run on Asian currencies, people would trust us, because we've got all these dollar reserves and we can support the strength of our currency." Again I don't know exactly what's in their head.

I think at this point, they're almost wishing they could get out of the dollar, because they see what Bernanke's been doing. But they don't want to cause a panic. So whatever the actual situation is, the Chinese government cannot continue to sop up U.S. government debt, without at the same time providing the mechanism by which the United States can continue to run a trade deficit with them, which only works because they are holding the U.S. dollar artificially strong against their own currency. So those things all are interrelated, and it's just odd that a lot of neocons and other people simultaneously complain about two things that have to go together.

**WOODS:** What about from the point of view of the average American consumer? Is there a sense in which the average American consumer is benefitted or harmed by the Chinese manipulation of its currency?

**MURPHY:** Well for sure I would say everybody on planet earth is ultimately harmed when a particular government creates money and makes it easier for the United States government to run deficits and so on. So that's what's happening. I think certainly the Chinese government and its associated monetary institutions and central bank are setting their people up for an Austrian boom-bust cycle in what they've been doing. And then it's particularly egregious in that what they're doing with that new money is to lower interest rates with the United States government, and make it easier for the United States government to spend more money than they take in in taxes. So that's certainly not good for the average

earthling, I would think.

As far as the direct issue of the impact to American consumers: let's say there's some foreign government that for whatever reason taxes its own people in order to subsidize exports from its own country. And so effectively they're lowering the price to U.S. consumers by making their own people defray some of the costs of the goods they're sending to the U.S. consumer. So in that narrow respect, it's good. American consumers are helped if some foreign government stupidly wants to tax its own people in order to give us stuff at a better price. If some foreign government wanted to make it completely free and just completely subsidize their exports, so they were sending us stuff across the ocean for nothing and we were getting free TVs, obviously that makes us better off. Yeah, our industry would adjust to that new situation, but there's a *prima facie* sense in which we're getting stuff for free that's obviously making us wealthier.

**WOODS:** I really just want to exhaust this subject. Why are exports so important? Why is there this fixation with stimulating exports through monetary manipulation? Why are exports the key to prosperity? Is it simply that the exports sector happens to be politically powerful? Why exports?

**MURPHY:** There are two ways of answering that. One is in terms of the economists and the analysts who are pushing it on paper. What's the rationale they're giving? And then the other angle involves what's going on politically in the real world. So I think you're right that politically, in terms of Public Choice economics, the way you would answer is to say the classic thing, "Why are there tariffs? Why are there any kind of favors given to exporters or to people who are producing domestically, and you want to keep out cheap foreign imports?" And the answer there, which I think is basically correct, is just the issue of concentrated benefits and dispersed costs. So politically, it's easy for the government to favor exporters at the expense of importers or just the general public, because the exporters clearly benefit. They can contribute to the campaigns and so on, and they know what's going on. Whereas the average person, it's hard for him to understand exactly why everything he buys is a little bit more expensive.

As far as the economics—like, if you asked somebody who's a genuine proponent of this why, somebody like Paul Krugman or something—I think it just goes back the Keynesian mindset that they're all about: "What do you do when the economy's in the slumps, in the doldrums?" You want to stimulate spending. So if you think about it, net exports in terms of the standard equation that you probably learn in introductory macroeconomics, if you took that in college, is  $Y = C + I + G + \text{net exports}$ . GDP is the sum of all the spending in the economy. That's the way Keynesians look at it. That's why Keynesians or the analysis of a newspaper article writer who's talking about the economy will say consumer spending is down. Business investment is down. Businessmen are very afraid of the future here. What are we going to do? We need the government to come in and run a big deficit.

By the same token the fourth element in that is foreigners on net buy more of our stuff than we buy of theirs—that's what net exports are. And so in terms of all the different spending streams that add up to GDP, the total spending in the economy, foreigners buying our stuff is one element of it. So I think that's partly why today's economists with their Keynesian mindset often come back to that and stress exports. I don't think there's any real reason in the grand scheme that if you understand why you don't need to

encourage consumers to go consume more. That “Oh gee, the way you fix the economy is to get people to go to the mall and blow their paycheck.” If you can see what’s wrong with that mentality then by the same token you can see why there’s no reason why the government ought to be encouraging the export sector to the detriment of every other sector.

**WOODS:** Let me ask you just a yes or no question here. Is this why some people have said that there’s a link between Keynesianism and mercantilism and why Keynes even said that the mercantilists have been unjustly maligned and they actually had some decent ideas? Are you able to give a simple answer to that?

**MURPHY:** Yes.

**WOODS:** Good. Let me switch gears entirely. Robots. I want to ask you about robots. And what I mean is, we all know that the invention of the train was a net benefit for society, because now the market is much wider. You can have a much broader array of goods, because they can be transported to all different marketplaces now. And you have a bigger potential set of consumers who can consume them. And you can be infinitely more efficient and all these other things. All the people who instead used to carry freight on horseback, or whatever—all those people are now freed up to produce other things. We couldn’t have had those other things before, because these people were stuck carrying stuff on their backs instead of working on producing widgets and all the things they can produce now.

So we see that technological advances and labor saving devices do not destroy jobs. They create new ones. These are great. But the scenario that you sometimes see that people propose just for the sake of argument is, suppose one day we get to a point where robots can basically do everything and then nobody has any jobs. This seems to be the ultimate direction where capitalism is heading, and yet in that scenario, yeah, okay somebody’s got to repair or create the robots. But you could build robots to do that. So in other words, is there a robot endgame where it actually turns out that technological advance is a net minus, because it takes so many jobs away from us? Where is the fallacy in that?

**MURPHY:** Well, one way of seeing it is to say, forget that question. Let’s just pretend we started new, and we’re sitting around just talking to our friends saying, imagine just a complete almost utopia. Like people who are into science fiction and whatnot. Just imagine a world that’s just wonderful, and it’s gorgeous. And it’s almost just heaven on earth. What would that look like? And they would probably say, well everyone just lounges around reading philosophy all day and watching movies and hanging out with their friends and then machines and robots do all the work. That’s what paradise would be. And nobody ever has to toil, or you have to work one hour per year. And all the material benefits of our infrastructure in these robots just cranking these things out, and we go and explore the stars and so on.

We have ships that are taking us around, and we’re just explorers. And we don’t really work. It’s just all about what we’re doing with our leisure, but our leisure is not merely lounging around. It’s doing all sorts of really exciting things and exploring the universe. I think that’s what a lot of people, particularly those that are attracted to science fiction, would describe as a future universe that was wonderful, and too bad we can’t live there. And so that’s one way of explaining: so then why would you be afraid of



robots becoming so productive that there's less and less for people do? That's the one way to look at it.

Now it's true you can come up with scenarios like: "Wouldn't some person who doesn't own any robots—wouldn't that person be at a disadvantage, because now he can't even sell his labor since the robots can do everything he can do?" Conceivably that could happen, but also if the world is that fantastically wealthy where the people who were lucky enough to have gotten on the investments, and they own the robots, and that's why they're the ones in charge of everything—I mean they could certainly donate to charity as a worst-case scenario. So I don't think there's any sense in which if you're worried about the fate of humanity that making us much more productive and expanding our ability to give charity to people who for whatever reason get left behind as the economy progresses—I can't see how that's going to be a problem, or that if you had to choose, you would rather stymie that technological innovation.

**WOODS:** It's just hard, I think, to see where people's purchasing power comes from in a case like that. I mean, it could be that the robots mean that we can produce an awful lot of stuff, but where do I get the wherewithal to buy the stuff from?

**MURPHY:** Well, let me just take it to the extreme. In the extreme, which is the alleged nightmare scenario where you earn basically one penny per hour, because the robots are so efficient, that's the only way to make it worthwhile for an employer to hire you. Otherwise they'll hire the robots. Just think that through. Somebody owns the robots, first of all, right? They're generating all this output. Somebody is the wonder of that, so clearly some humans are benefitting. And then one way of seeing it is, okay, land factors would clearly be very useful and valuable in that setting, in capital goods. And so, maybe you just own one acre of land that's fairly productive and that was handed down to you from your great-grandfather at a time back when human labor was remunerative, and that's what you own. And you get so much just from that. So the entrepreneurs who hire robots to come in and till the soil and so on—they don't need you to go pick crops, because that's useless. That's crazy. Nobody would use human beings anymore to pick crops. That's obsolete. But you own just that one acre. From today's standards owning one acre's not a very big deal, but in that future time the machines are so productive that that one acre of land actually gives you more consumption than right now Bill Gates can afford.

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# The Crony Capitalists

## Guest: Hunter Lewis

### October 22

*Hunter Lewis is the author of numerous books, including Where Keynes Went Wrong.*

**WOODS:** We're talking about *Crony Capitalism in America*, your other book that's out right now. We talked last time you were here about *Free Prices Now! Fixing the Economy by Abolishing the Fed*. But I guess the first thing we have to do is explain what crony capitalism is.

**LEWIS:** "Crony capitalism" I define as the merger of big government, big business, big finance, big labor, and big law. These people get together. They make deals amongst themselves. All of which benefit these private interests and government and do not benefit the people, the middle class, especially the poor. We have more and more of this crony capitalism. There's always been crony capitalism in America. The very first act of Congress was the tariff bill protecting special interests. But you know the United States has had less crony capitalism than other countries, and that's really enabled us to prosper. But recently we've had more and more of it. It's almost as if the Soviet Union didn't die. It just sort of migrated here. And we're paying a terrible price for it. One of the main reasons the economy is doing so badly right now is all this crony capitalism going on.

**WOODS:** I understand that the two books you have out now—and of course, any agent will tell you, you cannot possibly have two books out simultaneously—actually began as one book, and then you decided that conceptually it might be useful to have them as two separate books. So when we talked about *Free Prices Now*, which is a book that focused primarily on the Fed, that topic is not therefore entirely remote from the subject of crony capitalism. This was intended to be one book. What is the relationship, then, between the Federal Reserve and crony capitalism?

**LEWIS:** First of all, why is the economy doing so badly? As I alluded to, one of the reasons is that we're just choking with this crony capitalism. But that's one side of the coin. The other side of the coin is the bad economic policies that we discussed in the context of the other book. So it's two sides of the same coin, and the Fed is a very good example of it. The Fed is following these Keynesian policies, which we talked about before. The idea that if too much debt causes a crash, just load on more debt and so on. And yet, in the process, that of course leads them to bail out Wall Street, to create this conveyor belt of money going from Washington to Wall Street, which makes people there richer and richer while the rest



of the economy is struggling and the average person is doing more and more poorly. So these two things are combined and the bad economic policies undermine the economy. They also fuel crony capitalism, and that makes the economic situation worse.

**WOODS:** Now, I have to say I'm especially intrigued by your chapter called "Government Sachs: Revolving Door Prodigy and Power Behind the Throne." Can you elaborate on that, because I think there's a lot of interest in this among the general public. Kind of a curiosity about what really goes on at Goldman Sachs. People have the sense that this is an institution with enormous influence, like a vastly disproportionate influence, on politics and seems to be able to get what it wants, so can you maybe take us behind the curtain a little bit?

**LEWIS:** Well, Goldman Sachs is one of the principal crony capitalist enterprises. To some degree all of Wall Street more and more can be described as basically crony capitalist in orientation. They're making money in partnership with the government and that is at the expense of the rest of the economy rather than to support the rest of the economy. But they're absolute masters of influencing government. The former head of Goldman Sachs, Bob Rubin, was Secretary of the Treasury under Clinton. He was instrumental in achieving the bank reforms that enabled investment banks in banking to come back together again for the first time since the depression. And then, of course, we had another former head of Goldman Sachs as Secretary of the Treasury under Bush during the crash. He was not allowed by government rules to talk to Goldman Sachs, but of course, he got those rules waived. He single handedly really saved Goldman Sachs from bankruptcy, and he did it in ways that absolutely did not help the economy.

One of the lesser known facts about the period of the crash, but to me perhaps the most scandalous, was that Goldman Sachs was allowed to be treated as a bank, which meant that they could then go to the Federal Reserve and borrow money at virtually zero interest rates. And they've continued to do that to the present. All the conversations have been about the fact that Goldman Sachs got TARP money from the government and paid it back, but that was nothing compared to being able to tap into the Federal Reserve.

**WOODS:** Another as-American-as-apple-pie institution is General Electric. Everybody knows GE, and I think people have more or less a benign impression of it. But you're calling it "Government Electric." What's the deal with GE? Not another crony capitalist?

**LEWIS:** Yeah, absolutely. General Electric prior to the crash really morphed more and more into a finance company. A majority of their earnings were coming from their financial operations, and they were very badly run. General Electric would have gone bankrupt except for being bailed out by the government. And of course, the head of General Electric, Jeff Immelt, has been very close to Obama. He was made head of Obama's so-called Jobs Council. But the Jobs Council wasn't really a jobs council. It was really just a fundraising vehicle set up in order to finance the last presidential election. There was sort of a headline at one point in the press about, "why has the Job Council not met for six months while unemployment is so high?" And the reason was it had nothing to do with jobs.

**WOODS:** Part six of your book is called "Crony Labor." Can you explain that?

**LEWIS:** Of course, it isn't just a business that seeks to influence government, and the process goes back and forth. The government is increasingly taking over control of the economy. A business naturally responds by trying to influence or even take over government as much as possible. Government relies on business for campaign contributions. Business relies on government for essentially price controls and manipulations. That's the primary thing they want from government. They want monopolies, which the government can grant them, or they want other favors of that kind. But it isn't just business. It isn't just finance and Wall Street. There are other special interests involved, and labor is one of the biggest. Lawyers are another one.

What's happened in the labor side is in some respects extremely important. It wasn't very long ago that public labor unions were not allowed in much of the government. Franklin Roosevelt said that he couldn't imagine public employees organizing, because who is the evil employer they would be striking against or negotiating with? The government was the people, so how could employees of the government organize against the people? So Roosevelt was totally against that. Then, under President Kennedy an executive order changed all that, allowing public employees to organize. That began at state levels as well. And what that led to was the public employees who were paid with the taxes then had part of their pay syphoned off to a labor union which then in turn made massive campaign contributions to the local politicians.

So in effect, tax money was being diverted into campaign money and financing, particularly the Democratic Party but also some Republicans, and this has just transformed state politics. In state after state after state, this sort of electoral machine has been created, driven by the public unions who are in turn paid off by the politicians, so they get more and more salary increases and especially retirement benefits. And of course, as we all know, we've reached the point where the retirement benefits have gotten so high that nobody can afford them, and that not just Detroit, but even states are faced with bankruptcy. Illinois being a good example, but there are many others.

**WOODS:** My understanding there is that this is a case of politicians wanting to reward their reliable constituencies like the public sector unions, but the general public is resistant to tax increases. So the solution is to make these promises to the public sector unions that are future oriented. These are promises that as you, say, deal with retirement, with pensions, and so on, this way you're giving them a lot that they want but it's not immediate. So you don't get the immediate tax revolt. But now it's coming, because now the bills come due.

**LEWIS:** That's exactly right, and it's also interesting that in some states that have pushback against this as in Wisconsin, for example, or Indiana, they basically just said employees of the government should not have to have part of their payroll go to campaign use. It should be a choice of the employee whether that happens, and when the employees had that choice, very few of them allow their money to go into politics. And so then the whole campaign system collapses.

**WOODS:** Where else do you see maybe the most blatant examples of crony capitalism? What are the most obvious ones? I think Goldman Sachs is an example, and I'm glad you raised the Fed connection. That it's not just TARP. It's also that special privilege that they got at the Fed's window. But what are the

ones? Sometimes they might be right beneath our noses, but people are so accustomed to it they don't perceive the injustices going on.

**LEWIS:** There are so many examples. It's really hard to know where to begin, but let's perhaps mention the fiscal cliff bill at the beginning of the year in which President Obama took credit for raising taxes on the rich while preserving the Bush tax cuts for the rest of the population. And of course what was not reported about that bill was that President Obama, knowing that it was going to pass for sure, stuck in tax breaks for his favorite corporations. We have to remember that the Democrats have their favorite corporations—so the film industry, for example—along with the Republicans. So he simply stuck into that bill tax reductions for his favorite corporations. And those tax reductions completely offset the expected additional revenue from taxing the rich. At the end of that, as he's signing the bill, he says that this is just a first step. We need more reform of taxes for individuals and corporations at the very moment he is giving these favors to his corporations. It was just the most hypocritical moment imaginable.

**WOODS:** I think one of the clearest examples, the clearest pieces of evidence, that the crony capitalist phenomenon is very real is the revolving door that we see existing between regulatory agencies or the cabinet and the private sector that they are supposedly supposed to regulate or be in charge of, and you have a chapter in here in your *Crony Capitalism in America* called "The Revolving Door."

**LEWIS:** Right, and so we've touched on that a little bit with Goldman Sachs sending employees and the government, and the government employees going to Goldman Sachs. Then back to government. An enormous amount of that. But that goes on throughout the economy, and there are lots and lots of examples in the book. One of the more blatant examples relates to an employee at Monsanto who went to work for the U.S. Department of Agriculture, and then there he was in charge of deciding on what the government policy would be for genetically modified food, which is of course a Monsanto product. And he goes back to Monsanto. Then comes back into the FDA. Then he goes back into Monsanto. He's now in the FDA where he is, again, in charge of this whole area even though his career is clearly Monsanto-based. And genetically modified foods—when they first came out, people in the FDA said, this really needs to be investigated. There are serious questions about the health risks involved and so on, but that was all shut down by this individual.

**WOODS:** I want to talk about health costs for just a minute, because you have a lengthy discussion of this. This is an issue that people who support the free market have to face quite a bit, because people say, "look at how outrageous health costs are." And it's getting worse, and everybody knows this, and you go in for a minor visit, and you're sitting in the hospital for five hours. Your bill is \$2,000. It's crazy, and since we don't have full-on government control of the medical sector people are inclined to think that this is the free market, and that just goes to show what happens when you have a free market. What would you say is the primary factor that is instigating these high prices?

**LEWIS:** In our other session, we talked about how important free prices are for an economy, how the economy simply can't survive without them, and the medical area is a very good example. Basically, since the creation of Medicare, the government has come to dominate the medical field more and more.

Just within Medicare, government is setting many, many thousands of prices and then those prices vary by specialty and by location and so on. So in the end government is really setting billions of different prices in the medical field. The private insurers tend to follow the Medicare system, so all the prices are basically being set by the government. And that has completely backfired. That's just created more confusion, more price increases, steadily rising prices. There's no way to get medical prices down without getting free prices back into the picture by having consumers know what things will cost and be able to make some choices.

**WOODS:** What kinds of things could be done to make that a reality and how would your proposed changes compare to the sorts of changes that we're seeing implemented right now?

**LEWIS:** There have been some steps in the right direction. For example, when the health savings account was created that enabled consumers to make some choices about how they spent their medical money up to the first \$3,000, \$4,000, \$5,000 of expenditure a year, and those consumers knew that if they didn't spend that money, they could use it for retirement later. So there was an incentive not to spend it. That really helped the efficiency of the system greatly, but it's still just a very small percentage. Consumers control such a tiny percentage of medical spending right now that they can't really bring down costs, and they can't decide what kind of medical system they want.

One of the problems with Obamacare from the beginning is that if you decide what health insurance is then you're also deciding what medical care is. The government, in effect, is defining what the product is, and the government's not in a position to know what the product should be. So you freeze innovation. You freeze change. You don't have any of the positive elements of a market system going on as well as you just get prices going up, and you don't get the real innovations through to people to help them in their healthcare.

**WOODS:** As we've said, the two books that you have here are basically one book in a certain way, in that there's a similar thesis being presented here under different aspects, and I think that becomes clear as you come to your conclusion. Towards the end of the book, one of the last parts of *Crony Capitalism in America* is called "Losers," and I think these people are losers not just from crony capitalism but also from what the Fed is doing, which you detailed in your *Free Prices Now* book. So can we talk a little bit about the so-called losers, the people who actually do lose out on this, the people who are forgotten about but who actually do lose out in this? I mean you've got, for example, the young and the poor to name just two. How precisely is it that they are harmed by all of this?

**LEWIS:** Let's just talk about the young for a moment. It's really ironic. They were Obama's margin of victory in this last election. If the young, that is people under 30, had just split their vote evenly, Obama would not have won. And yet, when you look at what these current economic policies and the resulting crony capitalism are doing to the young people, it just absolutely wrings your heart. First of all, they've graduated from college if they go to college, and they can't get a job. We're all aware of that. They're saddled with all of these immense student loans, and why are they saddled with immense student loans? Again, it's a failure of government policy. The government provided the student loans, but that subsidy

really just flowed into the budgets of the colleges and universities. The expenses, the fees and tuition just kept going up, up, up, so that the more subsidies the students were getting, the less it helped them. It just led to larger debts, completely backfired.

Recently, the government has overhauled overtime rules for young people, so if you're a college graduate, that's no longer going to exempt you from overtime. So of course, how does the employer respond? We can't afford to hire these graduates anymore, because we're going to have to pay them overtime. Then of course, you've got the minority kids who can't get a job because of these price controls on wages. And then of course you've got Obamacare, which is adding a minimum of \$2.30 to the minimum wage for anybody, any single person to be hired and more if the employer pays the family benefit. So that's making labor costs more and more, and it means fewer and fewer jobs. This is just tragic what we're doing to young people.

**WOODS:** I don't know how many of them have had a political awakening as a result of any of this. I think some of them are still so caught up in the version of events that was taught to them in school that they just think that this is an example of how private employers are bad and greedy, and they won't give them a chance. "And Obama's just doing his best to give me a fair shake." I don't know. I mean I'm kind of out of ideas as to how to crack through to people like this.

**LEWIS:** On the positive side, I do think that there are a growing number of young people who are beginning to understand this. In general, the American people—it seems clear that they know that something is seriously wrong. They're not buying the official lie. They know that something is really completely off. They're just confused. They don't really understand what it is, and it's the young people that have to figure it out. Because they're the ones who are able to do it, and I think that they will do it. I'm more optimistic about the young catching on.

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# The Recycling Scam

## Guest: Floy Lilley

### October 23

*Floy Lilley is an adjunct scholar of the Ludwig von Mises Institute. She was formerly with the University of Texas at Austin's Chair of Free Enterprise, and an attorney-at-law in Texas and Florida.*

**WOODS:** Suppose a recycling propagandist came to your door. "Here, Floy, we've got these wonderful new recycling bins here for you, and this is really going to help the environment." Suppose you were in a particularly foul mood. What would you say to this person?

**LILLEY:** "Well, what exactly are you paying me for?"

**WOODS:** Okay.

**LILLEY:** They'll say, "Well, I'm not paying you. It's going to cost you to do that." And then I would have to say, "Well, then, whatever it is you want me to put into this wheelie bin should not be there, because it's not a useful resource to humans. If it were, you would be here at my door saying, 'Have you got any aluminum cans? Can I buy them? Have you got some craft cardboard? Can I buy it? Have you got some metals? How about hub caps, anything? Can I buy them?'"

We've been recycling forever. I mean not so many generations ago, essentially, Tom, the only thing in the rubbish dump, the only thing in the pile at all was broken pottery, shards of glass, because absolutely everything else had a useful life in some other way. The rags, all of that. The rag pickers picked them up. All of it had a useful life. And as long as they did, they were recycled, and recycling has a marvelous function in the market itself when it's part of the free market. And everything that can be useful to man is picked up from anything that people dispose of and reuse.

Now if it is not useful to man, then they send around bozos with green and tan and blue and red and yellow wheelie bins and have to mandate. No free market there. Mandate at the force of fines or imprisonment that you do something not natural. Now, why do you go along with that? Why do you do it? Why do we have two, three, four, and five wheelie bins cluttering up our alleyways and making an obstacle to try and even get in the door? I truly believe we only do that because it's been sold to us as a full-time religion. After all, now they don't believe in virgin births. They don't want any virgin



materials used like sand to make glass and hydrocarbons to make plastics, but they do seem to believe in quasi-resurrections, I'll call it.

**WOODS:** Let me jump in here. Suppose they came back and said, "All right, look, Dr. Lilley. You've got us. We frankly don't care that much about human welfare and efficiency. What we really care about is trying to keep the landfills from overflowing and sure it might cost something. Rather than showering benefits on mankind immediately, yes we might indeed be expending funds, but we have to do this. Otherwise, we're going to get poison in our well water, or we're going to have garbage overflowing everywhere, and certainly you don't want that."

**LILLEY:** Well, hearing you say, Tom, or man at my back door, that you think we've run out of landfill space essentially—

**WOODS:** I think the general public thinks so.

**LILLEY:** You think so? That could be. I mean if we act so crazy about it like you must recycle then it must be that we don't have any landfill space. But what are the facts about that? Some of the facts are that all the garbage for the next 100 years in America can fit into a space that's 255 feet deep or high and only ten miles down a side. All of the garbage in the U.S. So that's not taking up a huge amount of space and then, don't we know or maybe we don't know—we should know that landfills aren't the same old landfills that they originally were. Today they have leach bottoms to them. They have containers. They have tops. Some of them are even turned over like compost, and they're now energy-producing plants. Like the large waste management company who is the largest waste manager in the country. Anyway, most of his landfills now are energy-producing plants. They produce methane, and he's got many of them now producing natural gas.

Well, that is extraordinary, and some of those plants of waste management companies are now feeding electricity for 700,000 U.S. homes. When the landfill is finally through creating this energy, essentially, then its useful end life is simply usually something you want, as a park. But we're not running out of landfill space. I do understand how that mainly came about by that silly garbage barge that indicated that it couldn't find a place to land going up and down the East Coast, and then there was a bureaucrat who made hay out of that saying, "Oh, we've run out of landfill. This is horrible." But none of that is true. The landfills today take up most of our garbage, including most of what we recycle. So we're recycling, and yet it's going into the landfill anyway. So we're not running out of landfill space.

**WOODS:** All right, so then if it's not a matter of having to conserve landfill space, and since any of the other claims that they make seem to be false, I guess there's something going on here other than dispassionate science. Is there anything in the recycling mantra that we hear that makes any sense? Because sometimes you'll hear even free-market people say, "Well, sure, it's silly to be recycling glass bottles and plastic this and that, but the aluminum can—it does make sense to recycle the aluminum can." So how do I sort that out, so to speak, and make sense of that?

**LILLEY:** Well, when somebody is willing to pay you for it, that's when it makes sense. So those things will still exist, and those things are the metals for the most part. Some plastic but not much. Now what's happened today is that paper, and especially old newspaper, is old news. We're not using paper as much as we were even four and five years ago, so books and newspapers—they're worthless. They're not to be recycled at all mainly, because if you've got print on any of that you've got to use chemical bath to get the print off of it. And that's even more chemicals and even more waste, so books and newspapers shouldn't be recycled at all. Glass is insignificant and shouldn't be recycled. Just the card, the heavy craft cardboard, metal, and some plastics ought to dominate.

Landfill mining will take place, and there'll be landfill resource companies, and it won't be seen as waste at all. They'll know what's in there, and they'll mine back through it when they need it. But China stopped buying our waste. They stopped buying all our recycled stuff almost nine years ago, and during this economic depression that we're in, Tom—when times were real tough there's less garbage. So there isn't as much garbage going into any of either the recycle bins or the landfills.

**WOODS:** But I think it might be hard for the average person to see why it would be wasteful to take—and I'm just playing devil's advocate here.

**LILLEY:** Sure.

**WOODS:**—To take a glass bottle and not recycle it. Surely, it would be easier to clean an old glass bottle than to create a brand new one.

**LILLEY:** Well, wish away, but it's not. Maybe because most glass is not just clear glass. Much of the glass is mixed, and it's colored and the whole crunching of it, the whole trying to get it back down to its sand—all it is silica dioxide. That's sand. We've got plenty of sand, so there is something that ought to be a virgin birth. We need to just recreate glass out of the sand, and the same is true with plastic. Plastic is just from petroleum byproducts, and to try to separate plastics or recycle them is a very expensive product and process. So recycling for all glass and paper—paper, of course, is just a harvest. Trees are grown to be harvested, to be paper, and you don't save any trees by trying to recycle paper. But then sometimes they get away with themselves by banning some product and then essentially leaving you with nothing to do with it, and they did that in the case of incandescent light bulbs.

And back in 2007, they banned those nice lights that we like to use and said that we had to go using those compact florescent lights instead, and this ban was not a market choice. It was a gun to your head ordering you to use compact florescent lights, because they're better for the environment. Well, once again, they were wrong about that. The compact florescent lights, every one of them has a little bit of mercury in it, and those are not to go in the landfills nor are they to be recycled. That's a lot like what's happening now with what's called e-waste, and that's what the recyclers' business is going to have to deal with from this point on. And that is the electronic waste. Pennsylvania has just passed a law that says you cannot put a PV, a computer, a printer, or any smaller electrical device in any landfill or even in a bin of any kind, or else. Or else what? So they're going to figure that out.

Right now they mainly want to say, well, it's going to have to be the manufacturer's responsibility to say what this product does from its entire life from existence to its own grave. And somebody will probably figure those things out. All of those have got a small bit of rare earth, it's called, that China has cornered the market on, has most of the rare earth. The U.S. doesn't have any that is being produced at this point, and those will be valuable. But it's pretty much thought, Tom, that recycling per se by the year 2020 can't go any further in improving what it does. And that it will be limited to perhaps recycling about 50 percent of the municipal solid waste that has been recycled in the past.

**WOODS:** If what you're telling us is true, and I have no reason to doubt it, then the argument from landfills is wrong. Likewise the argument from efficiency, the claim that it's more efficient to reuse something than to create a new one. There could be certain situations in which something like that would be true, but then you would see that in the marketplace as you say. So that's false. I understand there could be some ideological reason that somebody might just want to impose burdens on mankind, but why would all these municipal governments latch on to this when it is so preposterous? And why do you think the general public, when the evidence is easily available to them—why do you think they just, lemming-like, go out there and sort all their garbage into these bins?

**LILLEY:** This all started out in a slightly different time, and we felt we were all very much wealthier. You can be really, truly green environmental when you feel wealthy and when you are wealthy. But with the collapse of the economy, people are not so wealthy, and so there is less garbage. There's less desire to do things that cost you time and money that essentially you don't believe in any longer. So California is trying to ban plastic bags, but it just got rejected. They're not in the mood for that. New York City is trying to ban Styrofoam containers, and they might get away with it. Mayor Bloomberg seems to do all kinds of nanny state things, but they're being rejected. Now Mayor Bloomberg is also saying you have to compost, meaning there has to be yet another wheelie bin in which you put your pizza scraps and the foodstuffs that had been going into general landfill. And yet, watch what happens, not unlike this silly thing about the lights and the lamps. If they decide that you can't put food scraps or combustible stuff into landfills, well then the landfill will not produce the gas that makes the landfill an operational process. It's got to have that food and that compostable stuff in order to burp.

**WOODS:** I just can't understand, and I know I sound naïve. You would think of all people in the world, why would Tom Woods be naïve about things like this? I can't understand, when this thing is so stupid and is indefensible on any conceivable ground, why it is pushed so insistently. It would be like the government saying, "From now on everybody's got to wear an orange shirt, because that absorbs light better." Some ridiculous claim, and everybody just does it. I understand that when you're wealthy you can afford to do a lot of preposterous things, but everything you do isn't preposterous. Why this particular preposterous thing?

**LILLEY:** Well it was sold to people, Tom, as "We're going to save the planet. We're running out of trees. We've got to recycle. We will run out of petroleum for plastic. We have to recycle." So it was sold to people as a prudent, a precautionary thing to do. It was the huge picture of environmentalism as it came flooding into us in the 1960s and the 1970s, and environmentalism was: "Humans are the

cancer on the planet, and it's our responsibility as tenants now to try to save the planet." So that was sold to everybody as a way for every Tom, Dick, and Harry to have a piece of the action of being part of saving the planet. It was something that everybody could do, could be made to want to do by rewards and really just communities giving you medals for being the best recyclers and a city winning an award for saving the planet. They all bought into that. It was the one environmental thing that absolutely every individual could be persuaded to do as a culture.

**WOODS:** I guess I can understand that, and I guess we didn't really hit on the claim that we're running out of X, we're running out of Y, and so you can't just throw it into the trash can. We need to recycle it, because it's super precious. But that just comes back to the response that if it really were that valuable and that scarce, then you would not want to throw it away. Because you would be offered something for it, precisely because it's scarce and because it's valuable. If that's not happening, then you have nothing to worry about from a global point of view.

We have just a couple of minutes left. I don't know if that's going to be enough time. But I did want to ask you, you keep up with the whole global warming crowd much more assiduously than I do. So you were telling me before we went on the air here that there have been some good developments, some favorable developments on the global warming front. What did you mean by that?

**LILLEY:** Well I meant that what I'll call the age of climate alarmism is coming to an end. This whole global-warming scare has just gotten so old, and people are so tired of it. Nobody's believing it any longer. And they shouldn't, and there's real information out now by a group called NIPCC, Nongovernmental International Panels on Climate Change. They have a lot of their stuff separately but also their "climate change reconsidered" physical science information is up on [Heartland.org](http://Heartland.org). Essentially, because there's been no rise in global temperature for 15 years even with a seven percent rise in carbon dioxide emissions, and the UN climate computer models were wrong about all that would be happening and the hockey stick that Al Gore used to say, "look at this alarming rise in temperature that's going to happen." Well, he left out an entire medieval warm period, and what happened now, the fifth assessment report from the United Nations has come out in this last week. They're leaving the hockey stick out. They now know they can't get anybody to buy that the medieval warm period didn't exist. And there have been no increases in droughts or hurricanes or typhoons and the human impact on any global temperatures has been a boon for flora and fauna and has been at best only one to two degrees Celsius. So the D20 group has even decided this year they're not even going to talk about climate change anymore. It's very old.

I think that recycling and environmentalism as hot issues have now been eclipsed by the collapsing economies, the stuff that you talk about, the absence of free markets. Recycling and environmentalism both did play a role in our wealth destruction whenever they made us do things that did not make economic sense. So I think what we need to be doing right now is turning to the free markets with human ingenuity. We need to get the free markets to return to sound money. If we can free the market to stop our senseless and destructive war on carbon dioxide, our war on terror, our war on drugs, our war on poverty, we will be doing the intelligent human thing. We need to create all the energy we can create.

If we're going to recycle anything, we need to be recycling our nuclear fuel rods and using all of them rather than just five percent of them.

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# Keynes and His Errors

## Guest: G.P. Manish

### October 24

*G.P. Manish is a professor of economics at Troy University. He teaches the downloadable course “Keynes: His System and Its Fallacies” at Tom’s [LibertyClassroom.com](http://LibertyClassroom.com) website.*

**WOODS:** Until recently, we actually thought Keynesianism was more or less dead. You can see the textbooks evolve away from it in the 1980s and 1990s. Now it’s back with a vengeance. Can you account for that?

**MANISH:** There are many reasons for that. I think one of the big reasons is that even though a lot of the conclusions or some of the policy prescriptions of Keynesians and Keynesian economics kind of went into the background, the conceptual framework of the Keynesian economics of the *General Theory* remained. When the crisis of 2008 hit, and lots of people were searching for answers, they unwittingly found themselves consulting an economic science whose fundamental concepts remained Keynesian. Some of the answers given also went back to what were given at the end of the Great Depression. I think that is one of the biggest reasons for the relapse.

**WOODS:** What was it exactly that Keynes was saying about the market economy? He wasn’t just saying that if there should by some strange fluke happen to be a depression, then you have to follow these policy prescriptions. He was talking more about the market economy in general. He was making broader claims. If you had to narrow it down to one or two claims, what it is that Keynes is saying about a market economy?

**MANISH:** He’s essentially saying that it’s inherently unstable, firstly. And because of the fact that it’s so affected by people’s psychological propensities—the consumption function, how much people are willing to expend on consumption or investment. These things are very unstable. Because these consumption/investment expenditures are both so unstable, the market economy is inherently unstable. It could reach full employment or high employment, or it could just completely spiral down into a chronic unemployment situation. Then there are no forces inherent in the market to get it out of that kind of funk of depression and low unemployment. So he wasn’t just making a claim about any one historical period. He was making a general claim about markets, and his claim is that markets can remain in a depressed state for a long period of time and can always lurch into it without any warning.



**WOODS:** Can you explain what the term “animal spirits” means? Keynesians feel like they’re being caricatured and not treated fairly, because people are not accurately explaining that concept. They’re saying animal spirits are just a psychological factor that we can’t really account for but which plays a substantial explanatory role in the Keynesian system. Are people being unfair to Keynes in the way they describe animal spirits, and what are animal spirits?

**MANISH:** Well, to some extent, maybe, and any economic term which becomes popular can get caricatured. Really Keynes’s whole discussion of animal spirits comes in his discussion of long-term expectations. So the way I understand the term, and the way he uses it, is essentially as a substitute for any kind of rational decision-making. Keynes’s essential point is that when you have a very capital-intensive economy, long-term expectations play a huge role in entrepreneurial decision-making. So, for example, if you’re going to invest in a steel mill or something like that, it has a lifespan of 15 to 20 years. How can you possibly form expectations about things which could affect the value of your investment over 15 to 20 years? For that reason, there is really no rational basis for making any entrepreneurial investments in these long-term projects, so people kind of just fall back onto these animal spirits, just these irrational kinds of random expectations, etc., of future possibilities. Then, of course, for Keynes there is also the question of the herd mentality in the market, in that if a few people do X then a lot of others are just going to follow like fish swimming in the ocean, all doing the same thing, etc. And that again makes for an unstable investment environment. So it’s going to be the same problems of instability in the market.

**WOODS:** What does he recommend as a way of coping with animal spirits? Is there any way to do that?

**MANISH:** He really doesn’t recommend any way. One of his points is that the market is unstable, because investment expenditure or the amount that entrepreneurs will spend on various investment projects is because of these animal spirits, so it’s just going to be completely unpredictable and totally random. Employment is going to fluctuate with that, because there’s going to be no demand for employment in these investment industries. The only solution he provides is, of course, right at the end I think of chapter three, where he talks about the socialization of investment. There he says the government has to step in and essentially control the whole area of long-term investment. But then the question which arises is why aren’t people who are in government also ruled by animal spirits? Just because you’re in the government doesn’t mean you become superhuman. In that sense, if you take Keynes seriously, there is really no solution. Though the market does have a solution in the form of the profit-loss mechanism, which Keynes of course didn’t address.

**WOODS:** Do you want to address it?

**MANISH:** Sure. One of the big problems with the conclusions Keynes derives from what he says is that because of the fact that investors are ruled by animal spirits, the markets are going to be inherently unstable, and so we can conclude that the allocation of factors of production is not necessarily going to reflect any rationality. It’s not going to be in line with consumer preferences. But what Keynes and even other people who use the concept of animal spirits I think seem to overlook is that of course there are certain entrepreneurs who are irrational, and there are certain entrepreneurs who make mistakes. But

then there are others who succeed, so essentially the profit-loss mechanism allocates the pool of available capital to those entrepreneurs who succeed. And of course those who succeed and make profits are the ones who have guessed correctly.

So I think that even if you admit that, yes, investors could be irrational in their decision-making, you don't have to therefore conclude that the market is going to be irrational in allocating factors or even in the level of expenditure. As long as you admit the fact, which I think is a basic empirical observation, that different people are differently able to predict the future. So Warren Buffet, for example, is far better than I at being an entrepreneur, so that's why he has as much capital as he has, and I don't have much and nor will I try.

**WOODS:** Tell me if I'm wrong about this or if I've got the basic gist of it, and then I want you to elaborate on it. The title of Keynes's famous book begins with the words *The General Theory*.

**MANISH:** Right.

**WOODS:** So what he's saying here is that the classical economists had really, unbeknownst to themselves, been dealing with a special case. They had been dealing with the special case of full employment, where all resources and labor are gainfully employed. He says that's only a special case. As you were indicating before, there's no reason to expect that the market economy will settle on an equilibrium like that. It could just, as you say, continue to dwindle and move downward in a spiral of unemployment. Now if that's what he's saying, then why is he wrong to think that? Why is he wrong to think that the market is just as likely to be in that sort of unemployment or underemployment equilibrium, and why is he wrong to think that the market has no way of recovering from that?

**MANISH:** Okay, so let me take both points you mentioned in order. So first, Keynes was wrong in that he caricatured economists before him. Steven Gates has a book in which he talks about how Keynes completely caricatures the economists before him. Given some of the *General Theory*, you will get the idea that they never even thought about what could cause recessions and unemployment. Of course, that was completely untrue. They did have a theory of recessions and unemployment.

Now, to come to the second point as to why we would not expect the economy to settle in that kind of recessionary spiral or recessionary equilibrium: the answer involves price flexibility on the market. That's how markets recover. As Austrian economists and even others have argued, when a boom turns into a bust you need price flexibility to reallocate resources back in line with consumer preferences, because what the boom represented was a misallocation of resources, which in turn was caused by meddling with the amount of money in the system and the creation of fiduciary media, as Mises would call it. Therefore, due to the mechanism of price flexibility, and especially the actions of entrepreneurs—who are always, of course, looking to make profits and therefore always trying to appraise the future, and always trying to move resources back to align in a way that is in line with consumer preferences—we would expect the market to use up resources in the best available way and to the best available level.

**WOODS:** Let's talk a little bit more about a common claim that we hear Keynesians make to this day about idle resources. They'll say that when you have an economy like we have now, and you have all these production facilities that are lying idle, and factories, not to mention individuals, laborers who are idle and not producing anything, then surely there can't be any reason not to favor some type of stimulus from the government side that would activate these idle resources into activity once again. In other words, you would have to be some type of free-market ideologue to think, "No, it's better not to kick start the idle resources into play. Let's just sit here and let everybody suffer." That's the way a lot of popular Keynesian renditions would put it. What do you say?

**MANISH:** Two points on this. Firstly, it's hard to even recognize what is idle in terms of economically idle. For example, if a manufacturer has a machine, and he chooses to not use it in certain times of the year when he thinks the demand for his product doesn't justify it, but nevertheless chooses to use it more intensively at other periods of time, economically speaking we cannot say that the machine was idle when he chose not to use it. Of course, physically it was idle. Similarly, if someone closes his hotel for let's say two months of the year you cannot say economically that that resource is idle. This point was made by William Hutt in his book *The Theory of Idle Resources*. Just by looking at a resource it's not really possible to conclude that it's economically idle, that it's not serving some purpose in the plans of some entrepreneur. That's the first point.

Now of course in the midst of a recession, one could argue that lots of these resources that are lying there unutilized are in fact economically idle in the sense that they are not really being utilized in any plan of any entrepreneur of any production process in any kind of economically rational manner. Just having concluded that they're idle doesn't necessarily mean that the cause of it is some market-led phenomenon. You could argue just the same that these resources are idle because of interferences into a market phenomenon or market processes. Like I said before, when a boom turns into a bust, if you do intervene in a large-scale manner into the market economy, then of course, you could argue that all of these idle resources are caused by such interferences into the price system. So just acknowledging that some resource is idle, however hard it might be to identify firstly—and Keynesians just use the term idle resources in a very unscientific manner sometimes—but even accepting the fact that they are idle, you don't have to conclude, therefore, that markets are to blame.

**WOODS:** Of course, you have to ask: why are the resources idle? What's the cause of this? Also, with regard to your first point about understanding the difference between "physically idle" and "economically idle," I don't know who it was who gave this example, but imagine a clothing store. There's a display of men's dress shirts and they're all priced at \$100 per shirt. They're not being purchased. At any time, the store could drop the price of those shirts to \$1 a shirt. They would clear away all of those shirts. Would it be right to say that those shirts are idle when they're set at \$100, or is it rather the case that the person selling them is waiting for an opportunity? He thinks that things will be better for him in the future if he keeps the price at \$100 and waits for a mutually advantageous transaction to take place. And that's what's going on, on a large scale, in the wake of a bust following an artificial boom in the Austrian business cycle tradition. Am I right?

**MANISH:** Right. You are right. You could also use the same argument not only about clothes in a store but even the clothes in your own house. How many jackets do we all own, but how many do we wear every day? Do we rent the rest out? We don't, because we get utility just by having the jacket available to wear anytime we might expect it. Similarly, an entrepreneur like in the example that you gave is choosing to keep that dress shirt or whatever the product might be and reserve it and not sell it at any price below that \$100, because he expects people to be able to pay that \$100. Of course, like I mentioned before, because of the fact that entrepreneurs have different capabilities, you would expect some of these guys to get it right and some of them to get it wrong. And of course, you would expect the ones who get it right repeatedly to be the ones who are successful in the market, and that's how the market rationally allocates resources. So of course, entrepreneurs can make errors, right? So the guy who prices his clothes at \$100 might be wrong. He might be—Keynesians claim—acting on the basis of some irrational animal spirits. Then he'll be outcompeted on the market.

**WOODS:** G.P., you're originally from India, and you moved to the United States how many years ago?

**MANISH:** About five years ago.

**WOODS:** Okay, and how did that happen? You learned about Austrian economics in India, and you thought the best place to pursue it was the U.S.? Your wife also has a Ph.D. and is a professor of economics, so tell us: how does something like that happen?

**MANISH:** I was doing my master's in economics in India, and at that time the library of the institution I was in happened to have books by Mises, Rothbard, Hayek, and all the other Austrian economists. I was dissatisfied with the economics that I was learning, and I happened to stumble upon those books. Then I happened to stumble upon Mises.org on the web, so I got access to many more books. And then I decided to pursue my Ph.D. along with my wife, who was also interested in these ideas along with me. We happened to get scholarships to study at Suffolk University with Ben Powell who is a student of Peter Boettke from George Mason University. [TW note: Ben is now at Texas Tech University.] So in a sense, it's a lot of luck involved in being here right now.

**WOODS:** Well, I'm thrilled that you're here, and of course, I was on the panel that examined you when you were engaged in the oral exam at the end of the Mises University summer program. And of course, we were all thinking: this guy should be on the other side of the table administering the exam, not taking the exam. So I thought to myself, if you can't beat them, join them, and I thought: I want a course on Keynes for [LibertyClassroom.com](http://LibertyClassroom.com), because I think a lot of people, libertarians included, may know a little bit about Keynes. but a real Keynesian would just clean their clocks. I wanted somebody who's going to explain Keynesianism from the ground up, and follow that with a critique. I looked no further than you. In our closing minute, can you describe what somebody would learn by taking your [Liberty Classroom](http://LibertyClassroom.com) course on the economics of Keynes?

**MANISH:** Well like you mentioned, Tom, what they'd learn first and foremost is the basic structure of the Keynesian argument. In order to criticize somebody you have to understand what they said, first of all.

That's what the first objective of the course is: to introduce everybody to Keynesian economic jargon, the basic concepts involved. How does Keynes define consumption expenditure? What is the consumption function? How does Keynes define what investment expenditure is? Then how do all of these concepts interact with each other, as presented by Keynes? Then explain this kind of recession, a permanent, chronic recession on the market. At the end, I attempt to make a few critical points, especially regarding Keynes's criticism of the necessity of savings, from an Austrian perspective. That's how I round off the course, so essentially what people would get would be a good grounding in solid Keynesian economics as well as a critical look at it at the end.

**WOODS:** Well, I'm deeply grateful to you for doing that, and I think probably I should give you one more minute to say something about Troy University and the Johnson Center, because there are certain institutions people think of when they think about learning free-market economics—Grove City College and various other places. They don't think about Troy University, but maybe they should.

**MANISH:** Absolutely. It's because we're relatively new compared to places like Grove City, Loyola, and New Orleans and Hillsdale, but we have a center here called the Manuel Johnson Center. I'm a member of it. We have seven other free-market scholars along with me, so that's eight in total. We have a new economics major, and essentially we teach free-market economics or are all interested in free markets and all influenced by Austrian economists. There's a heavy dose of all of that stuff in our curriculum, and so young students should definitely look at Troy University to get their econ major to study free market economics, definitely. Hopefully, more and more bright young minds will choose Troy and our reputation will grow.

**WOODS:** Tell us where Troy is and also how far away it is from the Mises Institute.

**MANISH:** Yeah, Troy's of course in Troy, Alabama, which is in southeast Alabama, but it is just about an hour and half drive from Mises Institute in Auburn. So students can get an opportunity to drive down and meet everybody at the Institute as well whenever they like, attend all the summer events, etc. We also encourage students to go to all the other summer events, for example, organized by the Foundation for Economic Education, which is in Atlanta now, which is also not too far away. Just about two and a half, three hours away, and other organizations.

**WOODS:** It sounds great, and I'm thrilled that you and your wife both have the opportunity to teach there, and I'm equally thrilled that you had time today to talk to us about Keynes and give us the basic overview. But people who want to know the full thing, like the systematic overview, so they can smash all the bad guys they should take your course at [LibertyClassroom.com](http://LibertyClassroom.com).

**MANISH:** Absolutely, Tom, yeah. Thanks for having me on the show.

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# Do We Need the State?

## Guest: Gary Chartier

### October 25

**Gary Chartier** is a professor of law and business ethics and associate dean of the Tom and Vi Zapara School of Business at La Sierra University. He is the author of several books, including *The Conscience of an Anarchist*.

**WOODS:** *The Conscience of an Anarchist* is quite a provocative title. We have had Barry Goldwater's ghostwritten book *The Conscience of a Conservative*. We have Paul Krugman's book *The Conscience of a Liberal*. Heaven help us, we have Wayne Allyn Root's book *The Conscience of a Libertarian*. But now *The Conscience of an Anarchist*. What are you thinking, man? When you say "anarchist," what do you have in mind? Are you talking about bombing buildings and assassinating presidents? What do you mean by anarchist?

**CHARTIER:** I guess by "anarchist" I mean somebody who cares about peaceful, voluntary cooperation, who wants to see society organized in such a way there's not top-down control. There's not aggressive violence, but the people are cooperating peacefully and voluntarily to achieve their goals.

**WOODS:** I think when most people hear a description like that, they think it sounds like something they favor, but then would be intimidated by this word "anarchist," because they associate anarchy with chaos. They think those two words are synonyms.

**CHARTIER:** That's right, Tom. They very often do. If we look at it etymologically, of course, anarchy just means the absence of rulers, and probably if you ask most people whether they much like to be ruled, they probably would say no. But I suppose they tend to associate the idea of the absence of rulers with chaos, because it often seems for whatever reason to them as if the absence of rulers has to mean that people can't possibly get along in an orderly, peaceful fashion. Only if Leviathan is holding his sword over their heads will people actually cooperate, and I don't think that's right.

**WOODS:** I think there are a lot of libertarians out there who will go with you to a certain length, and they'll say yes, it's true we don't need government for agriculture to work. We don't need government in industry. We don't need government in the drug war. We don't need it in a lot of these things, but, but, but... We need it for the most fundamental reason of all, which is to create the legal framework and the



framework of peace within which the private sector can operate. Now that, I think, is the most common objection to the sort of system that you're advocating here.

**CHARTIER:** Yeah, I think that's right, and it does seem to me that the historical evidence and the theoretical arguments both point in another direction. So I think historically we can see certainly not perfect examples of anarchy, but we can see everywhere from ancient Iceland and Ireland all the way to modern Somalia instances in which law can be generated on a bottom-up basis. Law doesn't require Leviathan. Now people think, well, if you don't have Leviathan imposing law, if you don't have an all-powerful state defining and imposing law, won't there constantly be conflicts over which law to apply in a particular case? And will some laws be better than others? I guess the thing I'd want to say in response to that idea is that, of course, no human institution is going to generate perfect law.

But on the other hand, I think there's good reason to expect convergence on better laws when people can choose among legal systems, and is there necessary conflict when there's disagreement about legal rules? Well, clearly not. Within the United States we've got mechanisms both for choice of law and conflict of law, problems that occur when people from different states are involved in legal disputes. The same thing is true internationally. People can and clearly have evolved orderly mechanisms for sorting out disagreements even when they're operating under different legal rules. So I don't think you've got to have Leviathan to create the law and impose it. I think there's good evidence that people in fact can do that themselves.

**WOODS:** You mention Somalia. I'm going to try and get Ben Powell on the program.

**CHARTIER:** Excellent.

**WOODS:** To talk about Somalia in particular. But before we go any further on this legal system thing, let's back up. Maybe I should have done this at the beginning, but I think it's more fun to shock people first and then ease them in a little later.

There could well be a lot of constitutional conservatives listening in, wondering what in the world we're talking about. They just want to get back to the Founding Fathers, and we're talking about competing legal systems. In your book, the introduction is called "Open Your Mind to Anarchy." What are the types of arguments you advance to make people question the minarchist idea that yes, we want freedom, and we want the private sector to handle all these things, but certainly we have to have Nancy Pelosi for at least three or four things. How do you break that down?

**CHARTIER:** I organized the book around several arguments. I begin by talking about the legitimacy of government power. Americans, certainly constitutional conservatives, are likely to be very familiar with the language of the Declaration of Independence, which talks about the roots of political authority in the consent of the government. That's such a familiar phrase for so many Americans. What I want people to do is stop and ask themselves the question whether any actually existing government has the consent of the governed. Whether any actually existing government is realistically imaginable as having

the consent of the governed, and I suggest the answer there is no. Then, of course, there's the fallback position that a lot of people take. We think that consent is really important, but by George, there's going to be widespread violence and chaos if we don't have the top-down ordering control of a monopolistic government. So the second argument I consider is this question of the necessity of the state for social order, and there I look at both historical examples and some theoretical considerations that might point in a different direction.

Then I focus on three ways in which I think the state is not only not necessary and illegitimate as I've argued in the first two chapters but actually dangerous. And I note the ways in which the state parcels out favors to corporate cronies. Something we're certainly seeing right now in the implementation of Obamacare, but I think we could find lots of other examples in which the same thing has happened. The state makes war violently and destructively, and it's just prone to engage in violence in a way that non-state institutions, I think, would not be. And then the state constantly interferes in violent, destructive ways with people's freedom, as for instance in connection with the drug war. So I've got three chapters in which I lay out the really destructive nature of state action in those areas.

Then finally, in a more suggestive and less argumentative way, in the last chapter I talk about the way in which moving beyond the state really could give all of us the freedom to experiment creatively with new ways of living and working and being together. The opportunity for creativity and exciting possibilities for a better future I suggest provides a further attractiveness to the idea of anarchy.

**WOODS:** One kind of argument you can also make, which doesn't settle the matter but gets people thinking, is the kind of argument that Gustave de Molinari made in the nineteenth century: there seems to be a natural law that monopolies are bad, that they have bad consequences. You get worse service for a higher cost over time.

**CHARTIER:** Absolutely.

**WOODS:** That seems to hold in the case of dispute resolution in the U.S. and even in the provision of security. When we look at the real record of the police in the U.S., I mean, how many murders do they actually solve, and the murderer gets punished? They don't want you to know how few it is. It's probably in the single digits percent. I talked to a policeman here in my city of Topeka, and he says they're spread so thin, they don't know how they can possibly provide the security that people need. So in other words, the budget for it is totally arbitrary. In a free market, there's no arbitrariness. It's how much do people want the service. That's how much of it they get.

**CHARTIER:** Absolutely. I think that's a great argument. As Roderick Long suggests, nobody would want a monopoly in the provision of shoes. It would be obvious to everybody how ridiculous that would be. And yet, when people think about the most valuable services they can imagine, the services of providing the basic protection that they need to go about the business of their lives, they somehow think monopolies going to do a better job for them, and there's just no reason to think that.

**WOODS:** I do have to raise the objection that I think is on everybody's mind. Let's imagine your preferred system, and you stole my TV set, and I want to get it back. You refuse to appear in court, and now I'm just out a TV. Then other people realize they can take TVs with no consequences, and before you know it, we're going to be begging to have Nancy Pelosi back.

**CHARTIER:** That's a lot of begging. I think that if we envision the way in which a set of competing dispute-resolution institutions would work, it's pretty obvious that the potential for violent conflict which nobody wants is dramatically enhanced if there aren't ways of resolving disputes between people who are customers of different protection agencies, right? So you're a customer of one agency, I'm a customer of another, and you do just what you've described. You refuse to compensate me for some act of aggression against me. It seems as if there's going to be a pretty obvious incentive—just as there is in the international context, for instance, where there's not a direct jurisdiction available right now—for your agency and my agency to have not an ad hoc agreement about our particular dispute but a more generic agreement governing disputes involving their respective clients or customers or members as the case may be, and arranging for the enforcement of judgments across the (as it were) boundaries of these institutions, just as we can enforce judgments across state boundaries or national boundaries today. Clearly nobody wants the kind of outcome that you've described, and precisely because nobody does, there would be a really strong incentive for the agencies involved to create mechanisms to prevent those kinds of outcomes from happening.

**WOODS:** Right. I think there's also this fear that these firms providing security services would go to war with each other. But we don't realize how necessary a state is for war, because a state has endless supplies of revenue. Whereas a private firm does not have endless supplies for revenue, doesn't have the kind of legitimacy. The state has legitimacy in people's minds, for better or for worse. They can get the money they need through taxation. These firms can't go and do that. War is extremely expensive. Peace is much cheaper, and most people are cheapskates. So there's going to be a presumption in favor of peace, I think.

**CHARTIER:** I think that's right, and I also think that a firm that started to behave in that kind of rogue way would pretty quickly become the target of defensive responses on the part of other people acting through their own agencies who wanted to prevent this kind of thing from happening. There are ways of containing rogues, and as you say, a rogue that can't depend as a rogue state can on not only tax revenue but also conscription really has a much tougher time of it in response to those sorts of defensive actions.

**WOODS:** Now let's think about what a left-progressive might say in response to what you're saying. Let's think about the New Left from the 1960s. They might say something like this: we favor a participatory system, we favor free speech, and we favor people making decentralized decisions and all that, but the system that Gary Chartier is advocating here is one in which, sure, we wouldn't be governed by the plutocrats in Washington; we'd be governed by other plutocrats. The corporations would have free reign, and we would just be the serfs of big business. That's another one you have to tackle.

**CHARTIER:** Absolutely, and that's why I devote such an extended chapter in the book to talking about

the ways in which plutocrats who want power over people's lives depend in such a profound way on access to state power. It seems as if whether we're going to talk about eminent domain or intellectual property or any number of other things that give corporate access to power over people's lives rather than just requiring them to serve customers as a market system would expect, really are unimaginable without state power. And if we look, ironically enough, at the history of progressivism in this country what we find too often is that the best-intentioned Progressives are too often co-opted precisely by corporations that wish to use progressive rhetoric to mask their acquisition of political influence in power.

So we think about the way in which Gabriel Kolko documents this with regard to the later part of the nineteenth century. The way in the which response by progressives to Gilded Age corporate mischief really just resulted in the creation of regulatory bodies that gave corporations the cartel powers they wanted. And then of course Butler Shaffer has documented this so effectively in *In Restraint of Trade*, looking at the New Deal period and the period immediately before this, that here corporations wanted their profit margins protected, wanted themselves secured against creative destruction by the market, and what did they do? They convinced Progressive politicians to endorse cartelizing measures that made their lives a whole lot easier even though with those measures of course also worked against the interests of consumers.

I guess my basic response to that progressive concern is if we get rid of the privileges that the state accords corporations and other business entities what we'd begin to see I think very quickly is the diminution in their power over us and the ability of consumers to get what they want in the market rather than being manipulated and run roughshod over by the corporate elite.

**WOODS:** As you say, particularly citing that Butler Schaffer book, the fact that big business worked so hard to get government privilege, and they want government privileges, and there's a revolving door between regulatory agencies and people in business firms, suggests that there's a symbiotic relation here.

**CHARTIER:** Right.

**WOODS:** These people would die a thousand deaths before giving up the state. There are some anarchists maybe on the Left who think of the state as being the great protector of private property, whereas our view is that it's the aggressor against private property. That leads me to the next question. Do you believe in the nonaggression principle, and if so, can you just state it?

**CHARTIER:** Sure. So the nonaggression principle as it's been embraced by lots of libertarians, finds different formulations, but I think the basic idea which I'm very happy to endorse is leave other people's bodies and stuff alone. Don't initiate force against other people. It's one thing to engage in defensive or rectificatory action against other people's bodies and their possessions, their justly acquired possessions. But it's another thing to *initiate* force against their bodies and their possessions, and when I talk about peaceful voluntary cooperation, peaceful and voluntary I think are meant to capture the heart of that idea that there's a protected sphere that each person has that it's important that we all respect.

**WOODS:** Here's where I'm going with this. We have two competing systems that libertarians tend to believe in, and there are some conservatives who are limited-government conservatives. We have limited-government libertarians; minarchists is the word that's used. So how does the nonaggression principle come to bear on the issue of whether somebody who wants to be consistent ought to be a minarchist or an anarchist? I'd be much happier if we had a more limited government than what we have now, so I am trying to work for change here and there to make things more tolerable for us. But how does the nonaggression principle come to bear on deciding between those two options?

**CHARTIER:** So let's say that your model is one in which nonaggression is the basic constraint on how we interact with each other. There's no way that the vast majority of the things states do will qualify as legitimate on the basis of that principle. So if we think about taxation, if we think about regulation, if we think about conscription, if we think about all the basic things that states do to get their way in the world, they depend on the ability of state actors to initiate force against people.

**WOODS:** This is why, when I was a limited-government person, I was uncomfortable with this. I didn't know how to answer the question: if you're against aggression, then how can you support the state even for the limited things that you advocate? The Objectivists will come back and say the state should be funded by voluntary donations, and then there's no aggression involved. What do you say about that?

**CHARTIER:** Obviously at some point, there's a fuzzy line between when there's a state and when there's not. But it seems as if the Objectivists, as I understand their position, still want to have a monopolistic state, and so the monopolistic state is still going to be using force to exclude competitors in the provision of defense and of their services. If it doesn't do that, if it doesn't use force to exclude, then it seems to me it's really stopped being a state. But if it is using force to exclude competitors and maintain a monopoly position, then unavoidably it's engaging in aggression. It's initiating force.

**WOODS:** Just to close, I think there's something very attractive about what's being described here, the type of society we're talking about in which people interact with each other peacefully. There's no institution that can initiate violence, and that's all great. But the concern I think some people would have is that it sounds like a system devised by philosophers. And yes, you can point to medieval Iceland and Ireland and this and that, but what if we tried this out and it turned out that the philosophers were all wrong? It just doesn't work out. Then it seems like it's a bit much to ask people to take this sort of on faith. In other words if the government had been providing shoes to everybody, and then somebody advocated privatizing shoe service, we'd all wonder how the private sector would ever provide shoes. And we'd say: well, we'll just have to wait and see. That's all well and good for providing shoes, but for providing security, I'm not sure people are willing to wait and see.

**CHARTIER:** So two quick responses to that. First of all, I think that the problem is that when the government monopolizes the provision of security and when its security providers engage in the mischief that they so often do, so much police violence, so much just destructive action, sometimes on the part of military agencies, it's not then that we're just confronting a problem in which service is being provided inefficiently or at too high a cost. There are immediate, destructive consequences that have

really obvious negative significance for people's lives here and around the world. So it seems to me on that basis, because state involvement in the provision of security is dangerous and not really inefficient, there's really more reason, I think, to be open to experimenting with alternatives, point one.

Point two, the claim that some scheme cooked up by philosophers and economists is really just a pie-in-the-sky fantasy maybe takes the wrong sort of perspective on the approach that I'd want to defend. I often hear people suggest that an anarchic model really only works if everybody's an angel, of course a reference to the end of the famous Madison quote about needing government, because people aren't angels. My response is always that we don't have an unduly optimistic and naïve view of human nature. It's precisely, I think, because anarchists have a realistic view of human nature that they're not willing to trust ordinary humans like themselves with a monopoly force. They're perfectly aware of how prone people are to mischief.

And of course, when you think about the fact that those who acquire power in any system aren't randomly selected members of the population but are instead people who are especially interested in power, especially ambitious and likely therefore unprincipled, there's even more reason to doubt that it's good to trust those people with monopolistic power. So I don't think it's a matter of being naïve and interested only in what works in theory. It's precisely because we're aware of how dangerous it is for people to exercise monopolistic power, whether in the area of security provision or elsewhere, that I think we're very rightly skeptical about the state.

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# WWE's Kane: Libertarian

## Guest: Glenn Jacobs (Kane)

### October 28

*Glenn Jacobs is the enormously popular professional wrestler Kane.*

**WOODS:** Glenn, I'm afraid I'm going to be asking some questions that you've probably answered a million times, but not everybody has heard the answers. And then I'm going to ask some that you haven't been asked before. But the first question that everybody wants to have answered involves how you become a libertarian. What was the path?

**JACOBS:** It was sort of a big circle, really. I remember one of my first memories when I was a kid was my parents talking about the evils of eminent domain, so maybe from the very start I was destined to be a libertarian. But then as I went through school and got to college, by the time I was in college, I'd been indoctrinated into socialist thinking. Then I got out into the real world. I'm like, man, someone has to actually pay for this stuff, and it seems to be me a lot of the time. But I sort of went between, "Am I a liberal? Am I conservative?" And back and forth. The problem was that I agreed sometimes with what quote, unquote, "both sides of the political spectrum" said, but on the other hand, I disagreed with various things that they said.

And then a friend introduced me to the term *libertarianism*, and I'd never even heard of that before. This would have been in the late 1990s, and I just started doing some research. And I was like, man, I actually agree with like 90 or 99 percent of what these folks are saying. And at the time, I looked at liberty more as an *ad hoc* thing. Libertarian philosophy that is. I agreed with some issues, and maybe I didn't agree with another issue per se, but I agreed with most of the issues. Then I realized it really is a philosophy that we're talking about, the nonaggression axiom, that the government should be bound by the same moral laws that the rest of us are. Once you realize that, your entire world opens up, and your entire paradigm changes.

Then of course along the way I discovered Austrian economics, and that changed the way I looked at the world too, because I discovered that everything is about economics. And there is no way to sort of compartmentalize human liberty into "Okay, I have social liberty and I have economic freedom." No, they're the same thing. If you don't have economic freedom, you don't have personal liberty. Vice versa—if you don't have personal liberty you don't have economic freedom, either.

**WOODS:** So who were some of the people, the books, that played a role in formulating your thinking?

**JACOBS:** There were a lot of folks. Harry Browne was very influential on me. Then of course Ron Paul, John Stossel, Peter Schiff, Tom Woods.

**WOODS:** Thank you.

**JACOBS:** And then I discovered a guy named Murray Rothbard, and once you come across Rothbard, it's all over. The arguments he makes are so logical, and they're so faultless that you really can't disagree with him.

**WOODS:** Now, I want to ask what people on Facebook and Twitter have been asking. Do you talk about this sort of stuff in the locker room? Do you talk to other wrestlers about this stuff? Do you find any of them are sympathetic? Or do you say, "That's my personal life, and here's my business life, and they don't meet."

**JACOBS:** Well, we're around each other so much, of course we do talk about various things. It was actually a co-worker, Shawn Morley, that introduced me to the term *libertarianism*, and I do talk with the guys. More so, they actually seek me out now, because they know that I'm into economics and finance. So they'll come and ask my opinion about various things, because I've sort of become well known as the libertarian guy in the locker room, I guess.

**WOODS:** How well do you know Jesse Ventura?

**JACOBS:** I've only talked with Jesse a couple times. I actually gave him Ron Paul's *End the Fed* book personally, but I've only talked with Jesse a handful of times.

**WOODS:** Okay, tell me: I didn't know anything about this, but somebody again on Facebook brought it up—thank heavens I outsourced this. I said, all right, we've got the great Kane coming on, what shall we talk about? And somebody told me about this IP lawsuit years ago against what was then the WWF by the World Wildlife Fund. Do you know about this? The World Wildlife Fund wanted to be able to use WWF. They didn't want you guys using it, and the wrestlers lost. What do you know about that? What are your views on that?

**JACOBS:** When the Internet was really coming into prominence, I think what happened—and I could be wrong about this—is that basically both organizations wanted [www.wwf.com](http://www.wwf.com). And I think, actually, World Wildlife Fund owned the copyright for WWF, and there was an agreement with us, with the wrestling company, and the World Wildlife Fund that they would allow us to use that. And then of course we both wanted the domain name [www.wwf.com](http://www.wwf.com). So we ended up switching our name to WWE, so we could have [www.wwe.com](http://www.wwe.com). I could be wrong about that, but that's my understanding of how the whole thing went down.

**WOODS:** What do you think about this? What are the rights and wrongs of this?

**JACOBS:** I don't know.

**WOODS:** I don't want to get you in trouble with the World Wildlife Fund.

**JACOBS:** I know one thing: the panda bears beat us, which is quite ironic. The whole deal with intellectual property and all that—people can come down on either side of it. Then, of course, it is a bit of a property rights issue, because the Internet domain names are a scarce resource. I just don't know the ins and outs of it enough to really be able to comment on it that much.

**WOODS:** All right, that's fair enough, but I figured I should bring it up. Of course, the other thing everybody wants to know—and again, I'm sorry to burden you with it, because you get it all the time—is whether you have any political aspirations, and if so, what are they? And if not, why not?

**JACOBS:** I don't know if I have any political aspirations or not. We'll see what the future brings. People are always trying to get me to run for office. I think a lot of the reason for that is the success that Jesse Ventura had. I don't know if that is going to be my particular course. I think that the political system is irrevocably broken, unfortunately. I do not think that change is going to come from participating in electoral politics. I do believe that electoral politics offers a tremendous bullhorn and a great platform for people to get out and express the ideas that we express. I don't know. In fact, I doubt at this point in time if change for the better will actually come through electoral politics. So I concentrate more on education and more on outreach in that way, and really on marketing.

And sometimes we use the term marketing, when you think about it, in a less than noble way. We think of the sleazy marketers. Well that's not the case at all. Marketing is pointing out to individuals why they would benefit from a product. I think we don't do a good job of that. We need to convince people why everyone benefits from liberty, and we often make the great logical arguments for liberty, but we don't make the emotional arguments. And I think that's something that we need to concentrate more on. So I don't know. It just depends on what the future brings. As the Austrian economists say, "The future's unpredictable." So I don't know where I'm going.

**WOODS:** I completely understand and respect that, and I also fear—especially if you were to run against Lamar Alexander, which would of course be fun to watch. I mean it's easy for me to say, "Go ahead, Kane, I'm right behind you." It's easy for me, and of course, you would be smeared like you would not believe. It would be horrendous. Of course, you're a big, tough guy. I'm sure you could get through it, but it would be a really tough thing. I'm not saying you shouldn't do it, or you should do it. But all the same, my feeling is that, yes, it doesn't seem likely that there is going to be a political solution. But then I'm not totally sure then what the theory is according to which we can solve our problems without politics. Can we really ever imagine that enough people will just withdraw their consent from the system and it simply collapses of its own weight? I understand that politics is not going to solve the problem. Then what? What else is our alternative?

**JACOBS:** Sure, and that is a great question. That's something I struggle with myself. My main thing is trying to change the things at a local and a state level, because I think that's where you can have more impact. I think you would agree with me that the federal government is lost. There are too many special interests that control the electoral process, that control the politicians, and the states have to once again become that buffer that interposes themselves between the federal government and the residents of the states. That's something that I'm trying to concentrate more on, is getting people to look at state and local politics, and I'm not for a strong government at any level. However, trying to strengthen the state governments at the expense of the federal government—de-funding, downsizing the federal government. And again having the states interpose themselves, which is the way that our system of federalism is always supposed to have been, but unfortunately at some point in time it got lost.

**WOODS:** Can I draw out from you the word nullification? Are you okay with that word?

**JACOBS:** Yeah, I think nullification would be a very good thing, and frankly the states are starting to do it to some extent. And they're talking about it. Even blue states with their marijuana laws are talking about it. So certainly I think if we say that people should have the right to self-govern, the right to self-determination, that would necessarily then introduce the idea that when the central government does something which is contrary to the wishes of the people of a certain state that the people of that state should be able to do something about it or to say something about it. And with this whole Obamacare deal, this thing is an abject failure already. It's already collapsing under its own weight. I don't think it can actually be implemented because it's just so clumsy and just so awkward. But you know that would have been a great opportunity for the states and hopefully some still do, to step forward and say we're not going to participate in this, and we're not going to make our residents and our citizens participate in this particular program.

**WOODS:** All right, I want to get back to your own situation. You endorsed Ron Paul in his two presidential runs. Had you already sort of come out, so to speak, as a libertarian in the public eye, or was that the moment at which you did it?

**JACOBS:** No, I had already come out before that, but that was sort of what really raised my profile. Because, of course, Ron Paul—his impact on our movement has been amazing. It's been spectacular. I think that he has converted more people—and I shouldn't use the word *convert*—he has made more people realize that they are libertarians perhaps than anyone in history with the Ron Paul Revolution, all of the things that it launched. So for me it was maybe a bit of a springboard into the public consciousness a bit more.

**WOODS:** How did that come about? Did you contact them and say I want to endorse, or did they come to you?

**JACOBS:** I contacted them. It's funny the way the world works, Tom. You meet one person, and he knows this guy, and they know this person and this person knows this person. That's sort of what it was. I met some folks that actually knew some people in Dr. Paul's office and from there, I started meeting

all sorts of folks in the libertarian world.

**WOODS:** I have a question that comes to me right from the producer of this program: “In my experience, professional athletes are easier to bring to the ideas of liberty and free-market economics, perhaps due to the high degree of self-sacrifice and excellence that is demanded in their profession. Has this been your experience?”

**JACOBS:** One advantage that we have, and I’m sure it’s true of other athletes as well, is that we’re independent contractors. If you listen to the liberal media, that’s the worst thing in the world, because we aren’t provided with health care and retirement funds and all this various stuff. But I think it’s great, because I can actually determine what I do with my money. It’s up to me. I get to make those decisions. The other thing is that we are not subject to tax withholding, which if there was one thing that I could do if I ever became president for a day and could repeal one act it would be the tax withholding.

We actually have to write a check out to the IRS four times a year, every quarter, and that will make you find religion real quick when you’re the one writing the check as opposed to not seeing the money that you don’t get because it’s on the bottom of your paystub. So in that way, I found a lot of our guys, they know how much they pay in taxes. They know exactly how much they pay in taxes. So they may pay a bit more attention to how the government wastes that money than folks that don’t actually know how much they pay in taxes taxes and celebrate when they get a refund, because they don’t realize that it was their money to begin with.

**WOODS:** Of course, in my profession, where I don’t have a fixed salary from any source, I am in exactly your position. I make the payment every few months, and it’s just painful. It’s huge amounts. I’m basically opening the window and throwing it out.

**JACOBS:** And you’re looking at it going, “Man, what could I do with that money that would be constructive, not only in my own life but—reinvest it in business or do all sorts of stuff that helps other people? And I’m not wasting the money, because I’m doing it to benefit myself. The only way I can really benefit myself is by helping other people.”

**WOODS:** Of course I could just simply spend more time with the family.

**JACOBS:** That too.

**WOODS:** I could have more leisure time and not be doing interviews and stuff. Of course, I don’t earn anything from this podcast, but I’m driven constantly. And I still work even when I’m not feeling well and everything. It’d be nice to take a break from that, and I could if I didn’t have to pay so much in taxes. When someone tells me we’re undertaxed as a country, I just want to belt that person, but then I remember I don’t believe in that.

**JACOBS:** What is it? Medieval serfs paid about 25 percent of their crops to the estate lord, to the manor

of the lord, and Americans are paying 50 percent in taxes by the time you figure in income tax and then all the various state and local taxes. And to think that we're not overtaxed is insane. And then the whole idea, the whole premise of taxation needs to be examined. It's based on theft. No matter what the leftists may say and what government officials say, I don't have that much choice in the matter. The money is expropriated from me whether I like it or not. And If I don't pay, I get fined or I go to jail, or I may be killed. So we have to examine the whole idea, the whole premise upon which taxation resides. Once you do that you realize that any tax rates are actually overtaxation.

**WOODS:** Can I ask you—now I've got two tough questions in a row that you may not want to go on the record on, but we'll see how you feel. The first one is: would you describe yourself as a Rothbardian in terms of a totally no-state person, or are you more of a minarchist, a Founding-Fathers kind of guy?

**JACOBS:** I would be a theoretical Rothbardian.

**WOODS:** Nice, okay.

**JACOBS:** I think for practical purposes in our lifetime, of course, it's going to be very hard to get there. I would welcome opportunities to downsize this, but from a theoretical level, I think that that is the most moral system. And also I do believe that it's achievable.

**WOODS:** The other question involves steroid use. We see congressional hearings regarding steroid use in other sports. What is your view about all that?

**JACOBS:** First of all, the federal government shouldn't be involved in that. It's not in the Constitution, so they shouldn't be involved in a constitutional paradigm. I don't take steroids myself. I never have. I think that they do pose a health risk. The WWE has a very strong drug policy at this point, which I applaud them for. I guess, Tom, philosophically I look at it and my deal with sports is I've always been attracted to the story. I remember when Kirk Gibson hit the home run that beat the Oakland A's. The Dodgers were these massive underdogs against the A's in the World Series, and Kirk Gibson hits this home run, and it's like a miracle. Then the *Rocky* movies—they have this underdog who works harder, and it's about the human spirit. Unfortunately, I think that we've taken that aspect out of sports, and sports has become just like a video game. I mean, you've got these athletes who are great athletes, but the idea of competition and the idea of working towards a goal and the idea of overcoming, which was always what attracted me to sports, have been somewhat lost at this point.

**WOODS:** What's the typical retirement age of somebody in the WWE?

**JACOBS:** It really depends. Because our business is based a lot on drama, you can keep on going for quite a while. A lot of it's self-imposed. I mean the guys have enough pride when they reach a point where they can't perform maybe to the level that they would like to—that's when a lot of the guys decide to hang it up. But it really does vary by the individual.



**WOODS:** Just for my own curiosity's sake, can you tell us what your workout regimen is like, what the workout regimen of a professional wrestler is?

**JACOBS:** I work out five to seven days a week. I do a lot more cardio now than when I was younger, because I find that I can put weight on really easily. But it's hard for me to keep the fat off, especially as I get older. And what I do is I train one body part with weights per day. That varies. Sometimes I also do circuit training, where you train your entire body like every other day. When I was younger, I lifted heavy all the time, and I still probably go heavier than most people would in the gym. But I don't go as heavy as I used to, because my joints can't take it anymore. I think the main thing is just getting into the gym and being consistent, and not only for my profession but also for my life in general and just trying to take care of myself, not only in the gym but also with my diet and all that sort of stuff.

**WOODS:** Where can people read your libertarian articles?

**JACOBS:** At LewRockwell.com I have a number of articles and also I write about every two weeks for DailyCaller.com, and these aren't necessarily—the Daily Caller is more of a conservative website, but it has very strong libertarian leanings. So those might be considered a little bit more on the conservative side, but I try to weave in threads of libertarianism when I write for them as well.

**WOODS:** Nice, well, Glen Jacobs, I can't thank you enough for doing this. You're a ridiculous hero of mine. I can't help mentioning, of course—and I wouldn't put you on the spot like this if it weren't for the fact that you mentioned this on the air when you and I were on the radio together in Tennessee not long ago—that you actually are a member of [LibertyClassroom.com](http://LibertyClassroom.com), which is awesome. You're the most famous member we have.

**JACOBS:** I have to tell everybody this story. So Tom is nice enough to come onto a radio show in which the host had allowed me—this is the biggest talk station in Knoxville—and the morning host had allowed me to bring on some of the luminaries of the libertarian movement, so I asked Tom if he would come onto the show. And he was kind enough to do so. And then at the end of the show, he gives a discount for the Liberty Classroom, a significant discount if they type in KANE, my wrestling name, in all caps to the discount window on Liberty Classroom. Well, the thing was, I told Tom, I was like, "I've been a member for months. I don't get the discount. What are you doing?"

**WOODS:** I'll just say right now that Kane gets a free lifetime membership to the site. If I just remember to implement it he'll get it.

**JACOBS:** And by the way, Liberty Classroom is great. I've learned more from the various courses that you have there over maybe the two weeks that it takes me to listen to the podcasts and read some of the other material than I ever did in high school or college, so you are providing a great service. Liberty Classroom. I think it's absolutely awesome.

**WOODS:** Well, that's very generous of you to say, and your being such a high-profile person who is

fearless in advocating the principles of liberty, we're very much in your debt. Thanks again for being here today.

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# Ron Paul Continues the Fight for Freedom

## Guest: Ron Paul

### October 29

*Ron Paul served as a member of the U.S. House of Representatives from Texas for 12 terms. He is the author of numerous books, including the #1 New York Times bestseller **The Revolution: A Manifesto**.*

**WOODS:** Let's start off with all the things you're up to. That'll probably take up the whole show if we're not careful. Last month you had a new book come out called *The School Revolution*, which I think propels the Ron Paul Revolution into the future. Why don't you take a minute or two to tell us what that book is about.

**PAUL:** Everybody knows I've been interested in education for a long time, and leaving Congress, I thought, what other thing could I get involved with? I've always worked with the Mises Institute, as you have, realizing the teaching of Austrian economics is the answer to refuting the Keynesians. I've also dreamed over the years about having a school, a brick-and-mortar type of school, when I got out of Congress, but I never knew when that time would come. But as this approached that time, both you and of course Gary North talked to me about this, and explained to me what is available now with the Internet.

So, I'm interested in that, so that's why we got together and wrote the book. A little bit of history about homeschooling, a little bit of research on that, and trying to get people energized. And lo and behold, it's at a time in our history where just about everybody's upset with the public schools. It's not just we who believe in a libertarian free-market message and the freedom principles. Everybody I talk to, traveling around the country on the book, no matter what persuasion they were, they couldn't brag about the government school system, so I think it's ripe for that. And I think the glaring failure of the system is so much that it's an open opportunity to offer up a couple of suggestions that I've worked on.

**WOODS:** Well, I was glad to have a chance to talk about this on your channel the other day, and of course, you have [RonPaulHomeschool.com](http://RonPaulHomeschool.com). I think that's very exciting partly because I'm involved in making some of the courses, and it's absorbing pretty much all day every day for me. But I feel like it's the most important work I've ever done, and I'm really privileged to be part of it. But as long as I've mentioned the channel here, tell us about the Ron Paul Channel. And do you have any plans to expand the programming? What do you hope to do with it someday that you're not able to do with it right now?

**PAUL:** Of course, expansion is the goal, but it's not immediate. What we want to do is improve it the best way we can to find out what the people really like. We've made some changes already. We've shortened the format. We have found—which we sort of suspected—people don't want to sit down and have a continuous program for 30 or 40 or 50 minutes. They might click on and off, but we're working on trying to make shorter information segments.

Later on, I am thinking of incorporating more people involved in the freedom movement. It's been pretty amazing to me how much technology is involved. People who wanted to put the money into all of the equipment and take all the risk—they're actually from California. So they had to put a studio here in my hometown, because I didn't want to move to California or Washington, D.C., or New York. But they have a studio in California, and connecting all these wires and then connecting to somebody like when I interviewed you the other day, it's not simple, and it's costly. So we're making our best efforts. As a matter of fact, I'm very pleased with it on the communication. We've interviewed Glenn Greenwald from Brazil, so things have been going real well in that sense. But we're looking forward to expanding and having more people on it and more programming.

**WOODS:** So that's [RonPaulChannel.com](http://RonPaulChannel.com). Now I want you to tell us about [RonPaulInstitute.org](http://RonPaulInstitute.org). What's the Ron Paul Institute?

**PAUL:** Well, the Institute for Peace and Prosperity is the one dealing with foreign policy, and Daniel McAdams, who worked with me in my congressional office for a good many years, and did the foreign policy work, is now in charge of that. We're trying to keep the momentum going for the noninterventionist foreign policy, something that surely came up a lot during the presidential campaigns, and I think we have some momentum there. People now are starting to realize that the interventionist foreign policy has failed. When I think of the success, at least a token success, on holding off the bombing in Syria as well as actually talking to somebody in Iran. This to me is pretty amazing. So that's what that website is all about, and it's more academically oriented. It's not videos or a lot of articles that appear, but it's keeping up with what's going on in foreign policy, to continue to promote the ideas of nonintervention in foreign policy.

**WOODS:** Well, I've talked to Daniel McAdams, and he's hoping at some point to be able to have a summer seminar for students to teach nonintervention. Now, of course we have Antiwar.com, but I'm not aware of any public organization that's dedicated to the principle of foreign-policy nonintervention. Has there ever been one?

**PAUL:** Not that I know of. There were always some that would pick up bits and pieces of it. You can even find Republicans before me that would pick up bits and pieces of it but not as a philosophy in itself. I guess the last attempt at this was when the Founders gave us some advice, and the advice was better than what they did sometimes. The Constitution would give us that type of foreign policy, but we never really followed it. But where we really strayed was in this century with the Teddy Roosevelt/Woodrow Wilson era, and it's gotten worse for 100 years. So that's why I think the people in this country are getting sick and tired of it. They're just so tired of the constant wars going on and the cost of these wars

that they're worn out from it.

And I think we live in a special age. I think economically we can talk about replacement of the Keynesian theories on economics and look more towards the Austrian School. But at the same time, I think on foreign policy there's such evidence that this has failed. I mean the Middle East—all this war going on for the past 20 years that we've been involved in over there—such complete failure. And of course, the authoritarian, the real thugs of the twentieth century, when you look at the Chinese communist government as well as the Soviet Union, as well as Hitler, Nazism, all failures. Nonintervention is well received on our college campuses, and that gives me encouragement that the next generation is very open to having significant changes in our policies.

**WOODS:** Now I want to shift gears and ask you some things that people have been wanting to ask. It's not going to be the same old "Why did you decide to get into politics?" or "What was the first book you wrote?" I'm not going to ask you that. I want to ask you some unique questions, and the first one comes from me directly. This is sort of a softball, but I am genuinely curious. In 2007, at what moment, what event, or what was it that occurred, where you first said to yourself, "Something unusual is happening in this campaign"? That this was going to be bigger than you ever dreamed it would be? Was there one particular moment? Was it that you were winning all the post-debate polls all of a sudden? What was it that made you say, "Whoa! something crazy's going on here"?

**PAUL:** I can't remember the date, but I do remember an incident that I knew something was different, and it was very early in the campaign. There were so many debates. I think there were like 26 debates, and I can't remember whether this was the one where I had a confrontation with Giuliani. But anyway, we had one debate, and I didn't think too much of the debate. But two or three days later, we were to have a small meeting, a get-together of people on my list, and expecting 100 or 200 people in Austin. All of a sudden when I arrived there it was the first big rally. It probably was very small compared to what happened after several years, but then I thought, "Where did these people come from?" We'd never had a turnout like that. Then I was saying that to myself or out loud: "It might have had to do with the debates that happened a couple days ago."

But I knew then that there was a significant difference in turnouts and enthusiasm, and it seemed like it kept growing. But it always sort of baffled me, because I'd been saying those things for so long and always to small crowds. I'd been saying it in Washington for 30 years, so it was pretty remarkable and so different for me to—all of a sudden, somebody paid attention. And they listened, and they liked it. So there was a difference but a lot of factors were involved in it all coming together like that.

**WOODS:** The questions are going to go in increasing difficulty. So the next one that somebody asked is, if you had it to do all over again, like your whole public career, is there anything you'd do differently? You would presumably run for Congress again. You would do that, but is there anything that maybe you wouldn't have done or you would have done differently?

**PAUL:** No, and when I ran for Congress, it wasn't to run for Congress. It was just me getting stuff off

my chest and speaking out. And politics is a bunch of luck in timing, and you couldn't plan it to happen, especially somebody that's not enthusiastic about it. I think the thing that I've looked at—although politically it didn't hurt me. I think long term it helped me—and that was running in the Libertarian Party in 1988. It wasn't that I'm less excited about the Libertarian Party. I always knew their shortcomings, but it was a struggle. The money all went into looking to get on ballots and it was such a hectic battle.

But the other side of that came about years later when probably, I'll bet you, six, eight, maybe more individuals who came across what we were doing in 1988 ended up working for me either in another campaign or in my congressional office. They were individuals. So the message was getting out that was so much smaller. But I never felt excited, and by the end of that year, to say, "Hey, this was a great year. We're on the verge of saving the world."—It was pretty tiring, and it was a lesson on the lack of the democratic process. I use that word cautiously. The democratic process here stinks when you think that we send kids off to die to spread democracy in the Middle East, because you couldn't get in the debates. You couldn't get on the ballots, and it's such a rotten system. Especially if anybody comes to the conclusion that Republicans and Democrats aren't very different, which I think a lot of Americans agree with now.

**WOODS:** That raises probably the most common question that I'm getting, and I'm just going to pass it on without editorial comment. The most common question is, "What made you decide to endorse Ken Cuccinelli in Virginia?"

**PAUL:** I picked the best candidate. I didn't feel like he was the pure person. There's a Libertarian in the race, but there was a major article today about how weak the Libertarian candidate is in Virginia. So I never approached campaigning and tactics and talking and building up coalitions and trying to get support from this group versus the other group. I always thought that there was a little bit of room for negotiation there, but when it came to issues and a position, and an endorsement of a position or a vote in the Congress, that's when I felt that there was to be no yielding to that. But over the years, I've worked with different people, and the danger there of course is, "Well, are you just picking the lesser of two evils?" And that is a danger. I worried about that a whole lot, because there was a Libertarian candidate in the race, and I got the advice from people who worked with me for a lot of years from Virginia: even though they were hardcore libertarians they were not supporting him and were gung-ho over Ken.

**WOODS:** There's a guy in North Carolina, Dr. Greg Brannon, who's running for U.S. Senate there and has your son's endorsement. He is a pure Misesian, Jeffersonian. I grilled him on as many questions as I could, and also, he's delivered 9,000 babies, which just blew me away. He's like what—two or three Ron Pauls. How can that be?

**PAUL:** He either was a lot busier, or he's delivered babies for more years.

**WOODS:** He said that on his first day he was involved in 24 deliveries. Welcome to the profession.

**PAUL:** Boy, that's a busy day.



**WOODS:** Let me ask you another one that comes up a lot. I know you have answered this one in the past, but people want to know. You were close friends with Murray Rothbard. You traveled in his circles. What you say sounds a lot like some of the things he said, so people want to know, in your heart of hearts, are you what's called an anarcho-capitalist? In theory would you favor no state whatsoever and the private sector would provide everything, or are you a minimal-government guy as you have claimed to be?

**PAUL:** I haven't accepted the idea that tomorrow we can scratch it and have no government, but the one thing I think where my career was different than so many others: We have heard a lot of people give a good speech when they're running for office and say, "You know, he really sounds good." It takes about a week or a month or a year, and he just joins the gang up in Washington. I would say from what I believed in the very first time I ran for Congress in 1974 compared to now or when I left Congress a year ago, I would say that I'm much closer to anarcho-capitalism than I was when I went. I've always gone in that direction, but I haven't sorted all this out. I haven't been able to figure this out about competing police forces.

But the answer to that: often if you have a corrupt police force who's private, you're going to have some problems. The world's not made up of perfect people, but what happens when you have a gang at the federal level and you have 100,000 federal bureaucrats with guns? I mean that is so bad that we have to reject that, but I haven't gotten to the point where all problems can be solved without any government whatsoever. I think the competing police forces could become a problem.

**WOODS:** I think you've suggested that over the course of your career you've soured a bit on politics, so what happens when a young, impressionable kid comes to you, has read a lot of the books that you've recommended, is full of zeal and enthusiasm, and says, "Dr. Paul, I want to run for office someday"? Suppose the kid even says, "But first I'm going to establish my credentials. I'll have a good private-sector job. I'll contribute to my community, and then my culminating act in my life will be to run for the House of Representatives." What do you say to that person?

**PAUL:** I say don't make that your goal. I get that all the time from young people. They don't even talk about getting a good job and knowing how to make a living in bad times. They just say, I want to be in Congress, and I don't think that's a good goal at all. I think if that time will come, it's like I mentioned. There's a bit of luck in it. It costs a lot of money, and if that is the goal, it's too easy to bend a little bit and say, "How am I going to do it?" They want to be taught how to raise money and how to organize and what to do on the Internet to organize the troops and that sort of thing. I tell them, just learn the message. Understand what liberty is all about and how to express it and teach other people, and something will come up. If it comes up, fine, but you might support other candidates. You might not even like politics. You just want to be a teacher. There are so many other options.

But if the time comes, and you run, the only way it can be of any benefit whatsoever is to vote the right way and set a standard. To get up there and say, "Well, now I've worked 12 years. I'm in Congress." The first thing that happens is the speaker gets a hold of you, especially if you're in the majority party. "It's okay, what committee do you want to be on? Okay, this is what you have to do, and do you have

any kind of votes you have to cast.” And then they own you. That is what you have to avoid. Going the other way is pretty tough today. I think, let’s say, the events didn’t come together in the 1970s, and I decided to do exactly what I did in the 1970s. I don’t think there would be one chance in a thousand that I could get elected under today’s circumstances. So this should be a secondary goal, very secondary. If it comes, fine. Political action is okay, but there’s a lot of downside to it.

**WOODS:** Last question and I’ll let you run. A lot of people would say, look, there’s only so much a president can do, and the president can’t overturn the welfare state or abolish the Fed or whatever. But there are some things a president can do, I think. So I’m curious to know: suppose Ron Paul is elected president. What’s the first thing he does in office?

**PAUL:** Where you have the most leeway is where you’re the commander-in-chief, and if there are events going on with the military, you’re in charge. This is one thing that is very, very clear, so you’re not to have micromanagement of the troops. I would think you could close down all military prisons, close down Guantanamo, and bring the troops home. Then you would be impeached. How long would it take if you’re president, and they pass all these kind of bills, send them over, and you don’t sign them? It’d be very, very tough to get very far. But it depends on the conditions. Right now they’re not holding it against Obama for listening to the people and not dropping bombs on Syria.

So I still think the consensus of the people, the understanding of the people, understanding why free markets are better, and it’s in their best interest—I imagine the most a libertarian president could do now is to try to explain to the people why it’s in their interest to look for less government, because all you’re going to see from now on is the failure of economic policies, the welfare state, the foreign policy, the attack on our privacy, and what’s going on from NSA. So there’s a lot of good things happening today. And the Congress eventually will reflect the people, but the people have to argue this case. But I just don’t think that one individual can change the world no matter whether they’re a president or not. I imagine it would be better to have a libertarian head of the Fed. Quit printing the money. That might do more good.

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# The American Police State

## Guest: John Whitehead

### October 30

**John Whitehead is president of the Rutherford Institute and author of *A Government of Wolves: The Emerging American Police State*.**

**WOODS:** I just told people a little bit about your new book, but maybe you can explain and defend a bit of the premise of it. I'm sure for some of our listeners, this is something they're familiar with. They may not know all the details but they'll agree with the thesis. But maybe the average person on the street might feel like you're exaggerating. If you're not a troublemaker, the authorities aren't going to give you any trouble, so what's worth worrying about?

**WHITEHEAD:** Those are good questions. I'm a constitutional lawyer. I've been litigating cases throughout the courts, including the Supreme Court, for over 36 years, so I've looked at what's happening in the country. I'm alarmed. I've written over 20 books. I would say this is probably the most important book I've written in 20 years because I'm alarmed. James Madison, who wrote our Bill of Rights, said "take alarm at the first experiment with liberty," so we all should be concerned when we see the things happening—the revelations about the National Security Agency downloading all the information from our computer, our bank records, watching everything we're doing worldwide. In fact, I argue there's an electronic concentration camp that's being put around the world and we just learned, believe it or not, that the NSA just in January downloaded 120 billion phone calls around the world.

We live in a very precarious state where you've seen the rise of annual SWAT raids to approximately 70,000. That might be a low figure. In fact, I was told by a former NSA agent that number—70,000 SWAT raids occurring across the country where police were going through people's doors, for misdemeanors, by the way, shooting their dogs and we want to talk about it; some of the cases where people are getting killed that have done nothing wrong. All the things I'm seeing—the drones will be flying over the country very soon, they'll be equipped with lasers, Tasers, sound cannons, they'll have scanning devices. They'll be able to fly over your home, watch what you're doing in your home. I'm not the only one saying this. People are saying there's really no place to hide anymore basically. You may not be doing anything wrong, by the way. You may get the arrival of a SWAT team at your door so you're going to be watched.

Here's the thing that I say to most people: I stand up and fight for freedom every day. It's not easy. I

defend people who picket for our liberties and they get arrested. It's not easy. If you're not doing something the government has at least been investigating, then you're clearly not doing anything wrong and you don't have to worry because you're not out there fighting for freedom. That's where we're at today. I believe we have about 10 years before we're going to see something so ominous that we can't deal with it so the time to act is now.

**WOODS:** You've been mentioning these SWAT team raids. That's actually how I got to know about your book. I read an article that you did and you were describing what sounds to me like pretty horrifying episodes involving average Americans. You would think when you hear SWAT team, you think "That's never going to happen to me," or these people probably had it coming, or whatever. This is our instinct that we have growing up, especially law-and-order conservative types. Just give us some examples of these sorts of things that have been going on.

**WHITEHEAD:** Here's the key: our Founding Fathers gave us the Fourth Amendment. It says we are to be secure in our homes, persons, papers and effects unless the government has some idea, some evidence, that we're doing something criminal. They can come investigate us but they have to get a search warrant. If you just look at the average police today when they do a SWAT team, they're in black outfits, with assault vehicles, assault weapons. Now the new phase is they're wearing masks, actually; all you can see is their eyes. These are American police coming to your doors. Starting back in the 1980s, the Department of Defense started handing out billions of dollars worth of equipment to police across the country, so your average police force today is a military force.

That's what you're dealing with, but some of the most outrageous cases I go through in the book.

One was José Guereña, former decorated Marine in Arizona, over a year ago. He was asleep in his home, three in the morning, the door flies open. All the SWAT team raids occur during the night when you don't know what's going on. You wake up and you're disorientated. He grabs his wife and child and puts them in the closet and says, "Stay here, I'm going to protect you." He grabbed his shotgun, the police enter and see him standing at the end of the hallway, they fire over 70 rounds, killing him. Fifty rounds hit him. He bleeds to death on the floor. They wouldn't let the medics take care of him. The police claimed he had fired at them, an investigation showed he had never taken the safety off his gun. The reason they came into his home is they were doing a sweep of the neighborhood trying to find marijuana. They found no marijuana in José's home. He died for nothing.

The case of Aiyana Jones, a young African-American girl, seven years old, asleep on a princess blanket in a Detroit apartment. The same thing happened. Three a.m. The window blast out, the doors go down, in come the police. One of the policemen said his gun went off by accident. It strikes young Aiyana, who was asleep wrapped in her princess blanket, killing her immediately; her blood splattered all over the apartment, all over the floor. Her father came out screaming, "Why did you kill my little girl?" They shoved him face down on the floor. Lo and behold, they were in the wrong apartment. The guy were looking for was two stories up in the apartment building. All these people have filed lawsuits and I hope they get some money and that it's a lot. But again, if they get settlements, they have to pay for it.

Those are the kinds of cases I'm seeing happening. We can talk more about some of the cases I'm actually involved in where we're seeing people disappear now, in most cases where the police arrive and just take people away and put them in institutions. I actually have people who work in the Secret Service who tell me that they're freaked by it and they don't know what to do about it, but when you get all this military equipment—and you're getting paid to do drug busts, by the way; police get federal grants for doing marijuana—and they're not using the warrant procedures; they're not knocking on the door. Most of these people aren't even armed and they're getting shot and killed.

There were 3000 estimated SWAT team raids yearly in the early 1980s. There are over 70,000 today. That's over a 3000 percent increase. By the way, crime has dramatically dropped in half while the SWAT raids have increased.

**WOODS:** If you had to estimate, what percentage of these would you say are due to drug-related offenses?

**WHITEHEAD:** Marijuana. They're all misdemeanors by the way. Most of these cases—30 to 40 percent. They make a lot of money off of it by doing these raids. They get actually money and I think that's awful. No policeman should be going at anybody's door to get a federal grant. That should not be. They should go there because they're actually dealing with a real criminal. The Chief of Police was my next-door neighbor. I used to talk to him and he would be shocked; in fact, I have a lot of older policemen—and, by the way, younger policemen—who come by to visit me and they say, "I wish this wasn't happening." In fact, they're reading my book, *A Government of Wolves*, and they're saying, "I don't want to do this, I hate this stuff, but it's actually increasing."

Under George Bush, some of this stuff dropped, but under Barack Obama, it's actually dramatically increased, the hand-out of equipment and the raids. It's increasing under the new president.

**WOODS:** Here's a concern, though. Some people will say, "We have plenty of good cops, and we have a lot of bad cops too," but then if it's the bad cops who were up to a lot of the bad stuff—for example, who were lying about what actually went on in these sorts of incidents—why is it that we tend to find out about what the bad cops have been up to not because good cops rat on them, but because somebody, thank goodness, had a video camera somewhere or somebody recorded somebody? Why don't we hear about this from within more?

**WHITEHEAD:** I do occasionally. Some policemen do get freaked out and that's the word. They've basically seen what we might call executions in people's homes of these SWAT team raids and they do get freaked out; they do report to their policemen. There are a lot of good policemen out there; in fact, I've spent my life on and off defending policemen, so I know. And I have good friends, as I said, who are policemen. Usually, it's thankfully programs like this that's I'm on, newspaper articles pick it up, sometimes just the TV station sees there is a rumor and they investigate it and find out about it. You're hearing that but when I say police state by the way—and that's the subtitle of my book *The Emerging American Police State*—I'm not talking just about the local police; I'm talking about anybody that carries a gun today. By the way, there's a certain paranoia and people need to know this: last year, about

this time, the Department of Homeland Security bought over \$1 billion hollow-point bullets for use by federal agents.

I was a military officer; we weren't allowed to use hollow-point bullets because if you know what those are, they enter like a regular bullet, but they collect flesh and when they exit, you're dead. They just blow a hole through. The FBI, the Department of Homeland Security, IRS, Department of Fisheries, Department of Education have hollow point bullets. There are some people asking serious questions about that. There's something happening in America and that's why I wrote the book *A Government of Wolves*; in fact, the title comes from Ebner Merrill, who was the great CBS analyst. He said, "A nation of sheep will beget a government of wolves." People ask me, "Who's to blame here?" Us, because we're not informed, we're sitting endlessly watching 50 to 60 hours of television a month. We're not down at the city hall complaining about these things. They will go on as long as we allow it.

**WOODS:** What is the precipitating factor? Why now? What do you think is pushing this? I understand that when the local police get all this extra equipment, naturally they tend to find uses for it, but that seems deterministic. Who's foisting it on them and why?

**WHITEHEAD:** The Department of Defense hands it out free. The Founding Fathers, Madison, George Washington, Thomas Jefferson, always said you don't want a standing military force. They didn't believe in the standing army on American soil; we have it today with the average police, but they actually combined with FBI and other agencies. Let me give you a case quickly about which we're in the courts: A guy named Brandon Raub, decorated Marine, was at his home last year in Richmond, Virginia, and he hears a noise outside. He's got a home business, he's typing, he's got his running shorts on, he had just finished jogging, he walks to the front door and there's eight or nine vehicles driving up around his lawn. Out jumps a bunch of local policemen in black. Then black-clad plainclothes people run up to his door and he steps out and says, "What's up?" Remember, he's a Marine; he's a little concerned seeing these armed fellows running toward his home.

They said, "We've been reading your Facebook posts, we're concerned." Brandon was posting some anti-Obama Facebook posts. They asked him to step out quickly, they grab him, handcuff him behind his back. One policeman shoves him into a fence, severing his back, and he starts bleeding badly. He asks for a shirt, they say no. When he gets to the police station, he asks for bandages and they throw a shirt on him which sticks to his back. They had been reading his Facebook posts, which was common; in fact, there's more information that I'm writing on right now about how the police are watching Facebook posts.

They put him in a mental hospital because of his Facebook posts. We sued, got him out. Now we filed a federal lawsuit against the FBI and the local police on this issue but there are millions of those happening across the United States. They're called civil commitments, where people have disappeared, the police arresting them. What we're seeing in my opinion is a total matrix problem; it's picked up dramatically over the last 15-20 years. Why? In my book, I discuss it pretty clearly and this is from studies that have been done: if you put someone in a military outfit, hand them an assault vehicle, a tank, black cloud outfits, they become very military. They no longer are the old servants—"serve and defend" I used to



see on police cars. By the way, when I was a kid, the “Serve and Protect” was on the side of the police cars; I don’t see that anymore at all.

Basically, the psychology of the policeman changes when they put on the military outfit. That’s what the studies show. It really shows but again it’s all documented in my book.

**WOODS:** My listeners wouldn’t let me get away with not following up on the “people disappearing” point that you made earlier. Run with that if you would.

**WHITEHEAD:** They’re called civil commitments. Brandon Raub, as I said, was a decorated Marine, he didn’t threaten anybody; he just said he thought the president’s executive powers had gone too far. He thought the government had turned against the people. He was concerned about SWAT team raids. They grabbed him, a psychiatrist gave him a two minute investigation in the jail cell and said he thought Brandon might be mentally disturbed because there were long pauses after the questions that he asked.

Brandon’s a pretty smart fellow. He knows if you don’t have a lawyer, you don’t answer the questions of a psychiatrist in a jail cell. Just in Virginia alone, there were 20,000 of these commitments that occurred, so we don’t know what happens to a lot of the folks in those cases, but for some reason, there’s a program called Operation Vigilant Eagle that comes out of the Department of Homeland Security, and I talk about it in my book, which targets returning vets. There’s great concern for some reason by the federal government, especially under president Obama, for whatever weird reason. They’re watching them. I get dozens of calls a week from veterans saying the FBI arrives at their door reading their Facebook posts and questions them and say if they do it again, they could be in serious trouble.

They called them interviews. One of the tactics they use now is if you’re not at home, when you get home there’s one of those little hooks around your door that says FBI, you open it and they want to have an interview. It intimidates people and you stop speaking up.

**WOODS:** You’ve compiled many of the outrages so terrifyingly in *A Government of Wolves* that one hardly knows where to begin. In fact, the headline on your press release is “Citing NSA surveillance, drones, roadside strip searches and SWAT team raids, author John Whitehead warns against the emerging American police state.” Who, 40 years ago, would have thought we’d be reading a sentence like this?

I think people like me, and probably people like you, grew up more or less politically as conservatives, and we felt like the law enforcement arm was upholding standards of morality in terms of trying to protect us from murder and theft, and these were people putting their lives on the line, so we tended to give them the benefit of the doubt. But that’s the problem. There’s no sector of government employee who can be given the benefit of the doubt; we always have to be asking questions and I don’t think we are.

**WHITEHEAD:** You’re correct; you have to answer the questions. I have law students who study with me every summer. I ask them when they come in for their interviews a number of questions and such, but one question I always ask them is “Can you give me the five freedoms of the First Amendment?” I

haven't found one law student that can. We don't teach the Constitution in schools anymore; kids just don't know. Another study I talk about in the book is about kids getting arrested for food fights now; what I'm really concerned about is what kids coming out of the educational system now are going to be having in their heads, they're going to be worried that if they wear the wrong t-shirts, they're going to get arrested. What they're creating in my book is the bystander effect where in places, some of the big cities, people are being strip searched on streets where 50 bystanders are watching; that violates the Fourth Amendment. They have to have some evidence before they can strip search.

In Milwaukee, they cause rectal bleeding in men. They've been sued. In Oakland, they've been sued. In a case I talk about in my book, last summer in July, Ashley Dobbs and her niece were driving along in Texas, the policemen pulled them over and said, "You threw a cigarette out of the car and I want to know if there's marijuana in the car," and they said, "There's no marijuana." They pull the two women out, another policeman came, they did vaginal and rectum searches; you can go on YouTube and watch this. Guess what? No marijuana was found.

If you're living in that environment, you're going to be nervous, you're going to be afraid, bodily integrity is gone and that's what the Fourth Amendment is all about: we're to be secure in our persons, papers, home and effects. The Founding Fathers lived under a regime: the British would invade their homes, they would push down their doors. And they didn't let that happen in America, but believe it or not, I talk about this in the book really clearly, the Supreme Court's upheld all this.

Two years ago, the case of *Kentucky v. King*. The police were searching for a guy, they arrived at the wrong door, they were going to do a SWAT team raid, they had no warrant, nobody to prove this; they thought they smelled marijuana. They went through the door, smashed it down. Of course, people that believed in the Constitution said this was wrong. The Supreme Court ruled it was okay to do that. Ruth Bader Ginsburg said this is the end of the Fourth Amendment if we allow these things, and I agree with it.

**WOODS:** Apart from educating the public, what else can be done?

**WHITEHEAD:** You want to educate the public. That's what we do. I have a large section of that in the book. It's time to get aggressive. You can make tremendous headway in your local communities. When you see kids get arrested for a food fight, people should be throwing a fit. Don't be arresting six- and seven-year-old kids; that intimidates them. When you see and hear about SWAT raids, go down to your local city council, get your neighbors together, get groups together. Committees of Correspondence is what they called them in the colonies; people got together. They said enough is enough. We're not going to allow this stuff to happen in our community. You can do that.

I'm warning people: drones are coming in 2015. President Obama signs a law allowing them to fly over the country without any civil liberties protection, so they're going to be looking through everything in your home, all the crazy things that I write about. And people go to my website [Rutherford.org], I write on stuff weekly. That's all we do. And research this. People say you're an alarmist, but let me go back with a quote I started the program with. James Madison, who wrote our Bill of Rights, said, "Take alarm

at the first experiment of liberties.” Either you’re an activist or you’re going to allow this to happen. That’s all I can say and shame on you.

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# The Paleo Solution

## Guest: Robb Wolf

### October 31

*Robb Wolf is the author of the bestselling book The Paleo Solution.*

**WOODS:** In a nutshell, what is the “paleo solution”?

**WOLF:** Well, the paleo solution is this template that folks can use to look at nutrition, lifestyle, community, exercise and use this to make some informed choices about how they might want to live their life. We’re using this kind of evolutionary biology template and because there are so many disparate views out there—maybe we should eat the Mediterranean diet or maybe we should eat the Okinawan diet, and different things like that—and so what this evolutionary biology perspective does is it assumes that humans are a part of nature just like all the critters in the world. And using that framework, we can make some informed decisions about nutrition and exercise and photo period. And I do a lot of work with the military and also police and fire. What we find in those communities is a lot of problems related to photo period, shift work, and nobody has really understood why this is an issue until we’ve really gotten in and started looking at circadian rhythm and evolutionary biology implications of sleep and disturbing sleep. And so it’s using this framework so it’s not just a diet. It’s kind of an overarching view to make some informed decision and with that people can either take it or leave it. What we find is folks that are looking for performance improvements, high-end athletes and also people who are quite sick, tend to be highly motivated to try something different and so that tends to be the two bookmark-bracketed kinds of population that are interested in this topic.

**WOODS:** So what exactly is the type of food that somebody on a paleo regimen would consume?

**WOLF:** Oh gosh! You could either do it inclusively or exclusively.

**WOODS:** Why don’t we do it exclusively? What do you avoid?

**WOLF:** You avoid grains, legumes and dairy as a baseline. I approach this in a very non-religious format and I throw it out there as my greasy used car salesman pitch is, “Let’s try this for 30 days and see how you look, feel and perform.” Check biomarkers, health and disease and then re-evaluate at the end of that. Hopefully, things have improved and hopefully the return on investment is worth whatever

suffering is involved with that. What we find generally is people end up looking better, feeling better and performing better and they actually find that they like the nutrition and the way of eating and they find some kind of 80/20 kind of thing where maybe Monday through Friday they're pretty tight with this way of eating and on the weekend they maybe kick their heels up a little bit and have a little bit of fun and go off the rails. That seems to be a really nice middle ground to find with this. If someone is sick they don't get as much latitude, and that should make a lot of sense to folks. My background was in autoimmunity and cancer research and probably the greatest impact that I've had is actually folks with autoimmune disease. So if you have multiple sclerosis, lupus, rheumatoid arthritis and you are facing potentially shortened life span or at the very minimum a very dramatically impacted lifestyle, then those folks may be highly motivated to be very, very strict on this and what we've found is it is quite successful in remedying their situations.

**WOODS:** Now I've had Mark Sisson on the Peter Schiff Show when I've been guest hosting. I've had him on this program as well. I'm familiar with the Primal Blueprint and you guys are all friends and it's an ecumenical community, but at the same time there are differences and just because I have imposed the Primal stuff so heavily on my hapless audience, I think we should at least pause to note one major difference and of course you hit on it with the dairy. Now, what exactly is so bad about dairy that, with the exceptions that you make, and occasionally you go off the rails or something, what is it about dairy that should make me want to avoid it all together? Not just the skim milk and the one percent or even whole milk or raw milk—why should it be chucked?

**WOLF:** For a lot of people, they end up understanding, say, the gluten reactivity issue, that these proteins in wheat, rye, oats, barley, millet may cause some kind of gastrointestinal inflammatory response which then manifests in a systemic inflammatory response, and unfortunately dairy has very similar effects as grains do on quite a number of people. I would say that fermented dairy is better than non-fermented dairy, raw fermented dairy is better yet. Things like butter and whole cream, particularly from grass-fed horses, are even better because they have a very low protein content. So the way that Mark approaches this is he kind of allows an 80/20 approach with this right up front, and if things aren't working well then he tightens them up later. The way I approach this is I really hold my folks deep to the fire: let's start with 30 days, assuming we've got kind of a China syndrome meltdown with loads of problems. We just assume that everything is guilty and then we slowly, via reintroduction, we reintroduce dairy. Maybe reintroduce some grains and see how you react and working in the clinical practices that I have, I found that from my own experience, people tend to get very, very good results with this. And then, because we've eliminated all of the major suspects, including dairy, then when we reintroduce them, we can see if you react to it at all or if it is very minimal and you can get away with one or two days a week, but not three or four days a week without getting gastrointestinal distress or some of the systemic inflammatory issues like joint inflammation and stuff like that. This goes way, way, way beyond lactose intolerance issues. This is actually dealing with the proteins themselves, which have some cross-reactivity in the GI tract, particularly when people are sensitive to, say, gluten. There's a high cross-reactivity of celiac individuals and non-celiac gluten intolerance and dairy.

**WOODS:** One of the arguments that people in the paleo community have made is that there are tremendous

health benefits that come from observing a regimen like this, but then at the same time, people reading the news or listening to critics might be inclined to be a little bit concerned because of something like the so-called China study. Supporters of that study suggest that eating red meat is actually terrible for people and that you're giving terrifyingly bad advice. Why are these people wrong?

**WOLF:** The China study is a great example of kind of politicization of science. And Campbell is a brilliant guy and he's done some really amazing work but early in his research, some of the research in the China study like the lab-based research involved feeding mice, interestingly both a toxin called aflatoxin, which is known to cause various types of cancer, and they were given a dairy derivative, whey protein. What they found, interestingly, though, is that a high protein intake from dairy caused greater morbidity and mortality in these mice in the long run, but actually it was preventative in developing cancer in the short run. This is some of the information that kind of gets round filed in this whole story. And so what we understand pretty clearly is that once you have cancer, cancer does a great job of metabolizing glucose and also does a very good job of converting protein via this process called gluconeogenesis. It converts amino acids into glucose. Cancer is very robust in some ways, but it's also very metabolically limited. It can't use lipids, it can't really use proteins directly as a fuel source. It really, really relies on glucose, which actually should inform our eating just a little bit if we were to think about it, but it's interesting with the China study. Campbell never really published some of the earlier research that he had or has not made as much noise about it, that high protein intake is actually preventative against developing cancer. But then as we've all experienced, once you have cancer, it's a very difficult thing to manage. Like we've been in the war on cancer since the Nixon era and survivability, morbidity, mortality really haven't improved all that much except in some very specific situations because cancer is effectively just a modified form of us. It's not as simple as taking an antibiotic and being able to shut down like a pathogenic bacteria; it is a modified form of us and so our current chemotherapeutics are trying to poison something incredibly similar to us but at the same time not kill us off. So that's been some of the challenge of cancer treatment in general, but it's interesting the main story that we get from the government, the main story we get from the media, is that we should be eating a low-fat, high-carb, more or less vegan-based diet, which is fascinating from a resource sustainability issue. That doesn't represent any type of a vibrant ecosystem anywhere on the planet. Everywhere we look we see plants and animals interacting in both a trophic kind of format in which plants convert sunlight into carbohydrates and other substrates and then animals eat those plants and then other animals eat the animals and this whole cycle goes on and on. But it's fascinating that the push is to produce a very lopsided, unsustainable food production story and something that really doesn't jibe at all with the anthropology, evolutionary biology, or what a good analysis of the data would tell us.

**WOODS:** Now your book, *The Paleo Solution*, was a *New York Times* bestseller and is still selling pretty strongly. Of course, as authors, you and I know that when you have a bestselling book it sells pretty well, but if it's not a fiction title that is promoted by Oprah, it doesn't sell as well as everybody assumes it sells, so everybody thinks that you and I have \$80 million in the bank and why aren't we bigger philanthropists with all the money bags we've got. But the fact is you are one of the most important names attached to this movement with the writing that you've done, and now of course you have the Paleo Solution Podcast. You must get a lot of testimonials from people who say, "I started listening to you and I was skeptical



and then I did it and now—" What follows that? What do they tell you?

**WOLF:** Gosh, some of the most fascinating stuff that we've had are folks that had some really well documented pathology. They've had multiple sclerosis, lupus, and rheumatoid arthritis. We've had a number of folks that had a clear imaging MRI showing brain lesions, showing lesions in the central nervous system before eating paleo, going paleo for 30 to 90 days and then showing reversal in these lesions and then, more important, showing a complete reversal in the symptomology they had. We see internuclear antibodies in rheumatoid arthritis the titer being quite high, which indicates that the body—I don't know if folks are aware of this but an autoimmune condition is when our own immune system thinks that tissues in our body are foreign invaders and then starts attacking our own tissues and can attack anything from the heart to the lungs, the brain. Anything is really fair game and we are very, very poorly equipped for treating these conditions. One of the main things that is done is putting people on immunosuppressants but then when you suppress the immune system, you're in a situation in which you're in high likelihood of the same complications that we see in HIV/AIDS. Fungal infections, sarcoma or a number of things like that. So we really don't have a good way to treat these things.

I think to the degree that my book has remained very, very successful—our podcast bounces between number one and number five on iTunes for over three years—is we've thrown this idea out to folks and just ask them to please try it and then good, bad or indifferent, please tell us what your results have been so that we can refine the technology, refine the message so that we can help more people. We take kind of a back-of-the-envelope kind of survey of folks who had bought my book and I give all of the information in the book away for free on my website. I've got shopping and food guides. I have quick start guides. I go into much more detail in the book, but basically I give all of the information in the book away for free. What we found is about 60 to 70 percent of the people buying the book had already downloaded all of the free material, got all the results that they were probably ever going to get and it was very, very good and impressive for them and then just to pay it forward, they actually went and bought like ten copies of my book. It's been this interesting kind of model that if I can give this thing away to enough people and just get them to try it, I will make tons of money helping people be healthier.

**WOODS:** I don't know about you but I always feel people who buy ten copies of my book are really models for all of mankind to emulate. So the website is RobbWolf.com with two b's. Is that the website you're talking about?

**WOLF:** Correct.

**WOODS:** You've got a lot of people who are willing to try this out, give it a shot. Worst thing that can happen is that you just don't like it. What's the biggest trouble, the biggest stumbling block to getting people to do it in the first place when you're spelling out what you are convinced are all of the benefits? What's the problem in giving them that initial push? Why won't they do it? Why do they resist?

**WOLF:** I would say if we had 100 people and I gave folks a little bit of a talk on this topic and I said, "hey do you folks want to try this for thirty days," 50 percent of those folks would say, "Yeah, I want to

give it a shot” and they’re excited, they’re engaged, they’re willing to give it a shot. I don’t need to bend their arm. They’re going to jump in and try this thing on. I kind of equate it to putting on a sweater or a pair of jeans to try on to see if they look good in them and they kind of go from there. Of the remaining 50 percent, about half of those people require a lot of arm-bending, cajoling. They will go surf the Internet and bring up things like the China study and what about “my pyramid” and this dietician who is my sister’s aunt’s niece’s friend told me that red meat would kill me, but you know those folks with some education and some arm-bending and cajoling and maybe a little bit of public shaming, they eventually come around. And then there’s about 25 percent of the population that even if they are sick, not feeling good, they have tons of problems, they are the people that have been a pack-a-day smoker their whole life. They get the tracheotomy and they are smoking through the trach hole. There is no saving those folks.

So I find that there’s a large chunk of the population that are very willing to give this a shot. A smaller chunk with a bit of arm-bending and cajoling, they will get in and try it. And again, I haven’t had a TV show. I haven’t had a marketing budget behind this, but the marketing gets tons of traffic, the show does well and the book, after being out for three years, is still selling very, very well. It’s just because success begets success, but there is a kernel of folks that no amount of effort on my part is ever going to bring them in or it’s a very diminishing return. It’s like I would have to try incredibly hard to get one or two more percent of those folks and I just really don’t have the time or the wherewithal to do that. I try to be a high-velocity kind of person and get this message out to as many people as I can as quickly as I can and the entrepreneurial people will give it a shot and it will either work for them or it won’t. I think generally it does and that’s part of the success of the whole story. I haven’t spent a whole lot of time trying to convince the folks that are convinced that it’s not going to work. I say okay, that’s fine. I hope that your health insurance and life insurance are in a different branch from mine because I’m going to cost less and live longer than you are.

**WOODS:** In a way, it’s like the molasses you can get caught in when you get in a Facebook or Internet argument in a comment box and you can spend all day arguing with someone and make zero progress. Think of all the good I could have done in this day if I had just focused my energy on people with open minds, and there are plenty of them out there.

How do you account for the fact that your first book is a *New York Times* bestseller?

**WOLF:** Gosh, you know, I guess to some degree it’s a fifteen-year overnight success. I’ve just been chopping wood, carrying water on this topic for a long time. My first exposure to this topic was in 1998 and at that time, there were maybe a couple hundred, maybe a few thousand people in the world, that if you said “paleo diet” they would have any understanding of what you were talking about. And typically it was a researcher, an evolutionary biologist, something like that, or maybe there were a few physicians like Boyd Eaton, who wrote a book and a piece that made it into the *New England Journal of Medicine* back in 1986, but it was a very, very small group of folks. I started writing about this stuff, blogging about it. I was involved in the very early iterations of this CrossFit strength and conditioning movement and I did their nutrition search for a number of years, so I started broadcasting this message. Loren Cordain, who is my mentor and he is really regarded as the godfather of this whole paleo diet concept—he and I

talked about this being almost like SETI—the search for extraterrestrial intelligence—in reverse. Instead of a big parabolic dish listening to the universe, we were also trying to beam this message out to the world and see if anybody received it and what their results were, and then kind of creating some sort of interface around that. I think that we had some timing that was well placed with regards to the Internet and social media and the ability for people to do some n=1 experimentation, just some self-experimentation to see how things worked, communicate with the folks that were broadcasting the message. And then people could read that and make some objective opinions out of it and read the literature as it became available. And I think that whenever we see a concept that works, that creates community, that makes people's lives better, I think we have the potential for it to become very sticky and for it to perpetuate itself. So I think that I had worked very long and hard answering literally thousands of form questions and blog questions. You know, people coming to my website and creating a rather large grassroots following and those people were very, very endeared to me and really worked hard to make the book successful.

**WOODS:** Now let me ask you something that, I don't know, maybe won't quite endear you to them so much. What you're talking about runs counter to your friend's aunt's neighbor who happens to be a dietician, yes, but it also runs counter to all government guidelines and the official food pyramid with all the grains at the bottom and the eleven servings a day and all that. So is there, if I may ask, a libertarian streak in Robb Wolf?

**WOLF:** Yeah, about a mile wide. I have some friends in the scene who have not come out of the closet yet. We won't name names, but both you and I know.

**WOODS:** We know whom you're talking about!

**WOLF:** Yeah, but we won't out them yet and it's interesting. I've been back and forth on this thing because part of me and part of the recommendation I've received from people who are more successful than I am: "Robb, keep your head down. You beat a good drum on this nutrition thing, but don't get into the politics and don't get out into the weeds with this stuff." The challenge that I've had is that the very system that we are in is fundamentally broken. Part of the reason why people make bad food decisions is primarily economics based. We subsidize the production of grains, those grains then get processed into very hyper-palatal, very tasty highly unhealthy foods and then they appear to be cheaper than apples and oranges and pork loin and whatnot because it's a false economy. Unless we fix that, I think this is something that both the liberals and kind of the religious Right—you can only guilt people into so much new action. There's a very small number of people who will change behavior out of guilt. There's an enormous number of people who will change behavior out of economic circumstance and, so this is where tackling the fundamental food production story, the fundamental story of, for example, a third-party health care system that is fraught with moral hazard, that doesn't produce accountability, that has all kinds of ways for people to fundamentally not be accountable. All of these things are very intimately tied together. Our food production, the health care system, the way that we tie all this stuff into the government. And at some point I just felt like I was going to be the little Dutch boy with the fingers in the dyke, I would plug up the hole and another would pop up and I would plug the hole and another would pop up and the only way we're going to legitimately address this story is by a systemic

overhaul, but this does freak out a number of people who follow me. It just freaks them out because they are not comfortable with this idea of markets improving health care, improving our food supply, but even right now it's interesting as we're recording this, we're still in this government shutdown, we're printing money like crazy and we have a very fragile food production system, and part of what I've been advocating is a decentralized non-government interventionist food production story that would survive an oil crisis. It would survive all kinds of ups and downs in current basements because it isn't centrally planned, and slowly this idea is getting out there. I've actually been getting some reach-out from some large Fortune 500 companies and I'm actually working on a project here in Reno, Nevada, where we did a risk assessment program with the Reno Police and Reno Fire where we found their high-risk police and firefighters who were high-risk cardiovascular disease, put them on the low-carb paleo diet and saved the City of Reno—just with the pilot study—\$22 million. We're scaling this up and hopefully taking it national and international, but you know these market-based forces, when you look at kind of libertarian market-based analysis of economics, this really is the one way that the world works. It may make people mad or it may make them feel warm inside, but it's just kind of the way the world works and on this other piece, the evolutionary biology piece, is the way that nature works. And when we meld these things together—it's not opinion—that's actually working with the way that nature functions. Economics and evolution, some people aren't comfortable with the elements of that. I can sympathize with it but if we're going to fix what ails us, I think that we really need to embrace both of those concepts and ride those ponies until the legs fall off of them.

**WOODS:** Robb, I appreciate your time. Sometime down the road when people need to have another Robb Wolf fix, we'll have plenty of stuff to talk about. I appreciate your time and thanks again.

**WOLF:** A huge honor being on your show. Thank you.

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# But...Somalia!

## Guest: Ben Powell

### November 1

*Ben Powell is a professor of economics at the Rawls College of Business at Texas Tech University, where he is also director of the Free Market Institute.*

**WOODS:** Before we get started, before you save our hides by helping us to understand the Somalia situation, first I want you to tell us something about this great gig you have going over at Texas Tech. I got to visit you down there earlier this year, and you have your own free-market institute down there. Tell us about it.

**POWELL:** Thanks, Tom, and it was great to have you out and speaking to our audience there. We are building a new free-market institute at Texas Tech that I took over directing last January when they founded it. And we're trying to make ourselves a beacon of free-market economic thought here in the United States and for that matter the world. I'm recruiting two new hardcore free market faculty members this year, and I'm working on some programs to hopefully bring in a few more faculty members in the following year. We work with graduate students, undergraduate students, public programming, conduct research, the whole nine yards there, and it's amazingly been a very hospitable environment at that university for this type of thought.

**WOODS:** Is there an easy URL that you can link people to? Otherwise I'll put a URL with the show description, but is there an easy one?

**POWELL:** Sure: [www.fmi.ttu.edu](http://www.fmi.ttu.edu), so, "FMI" is Free Market Institute, and then, "TTU" is Texas Tech.

**WOODS:** That's not so bad. Let's jump into Somalia, because as you may know, Ben, the classic anti-libertarian comeback is, "Why don't you libertarians go live in Somalia?" I think it's not such a good comeback to say, "Yeah, well why don't you go live in Stalin's Russia?" or something. This doesn't really work. First of all, tell us a little something about the work you've done. You've actually written some scholarly work on this, so give us a little bit of background about your work. And then how do we start unpacking the Somalia claims that we hear?

**POWELL:** You're absolutely right that this is a crazy attack that libertarians have to deal with. There's

even an online video talking about it. It's two people on a beach, and they're like, "What, this is a public beach? If you don't like beach socialism go to Somalia!" Then it shows hideous conditions there, and at the end the girl's like, "Oh, and I caught cholera."

It's just the wrong comparison. We're not comparing the United States today to Somalia. Somalia's definitely a poor, impoverished country like much of the African continent.

What really we need to do is relevant institutional comparisons. Basically, how well does any given country do, given its level of development, compared to its less-state or stateless alternatives? It's not fair to compare a First World country to a Third World country regardless of what type of institutions we're talking about. So there's definitely something that's out there, and I'm glad you're taking the time to address it on the show.

My own work on Somalia started eight years or so ago, and I was working with some students. The first thing that attracted me, believe it or not: the World Bank of all places published a little study that said Somalia might not be doing so bad. This was around 2004 or 2005, something like that, and it just pointed to a few minor indicators. I think the number of improved roads, I don't know, and two other living-standard-type metrics. And what the World Bank authors said was, compared to its immediate three neighbors Somalia's not obviously doing worse than the other ones. I said, well, this could be interesting.

So I started investigating further and ended up working with a couple of students to work on research. How does Somalia do in its statelessness compared to both when it had a state and to the other 42 sub-Saharan African countries? Because that's the relevant comparison. Not Somalia to the United States but Somalia to its peer group.

**WOODS:** And by the way, that is the type of error I think that we get in many, many situations. Like people, for example, who read about the Industrial Revolution in their seventh-grade textbook, and they see that kids are working in mines or kids are working in factories in very unsafe conditions. Everybody has a very low income, and they say, "But today, now that we have big government, we don't have these things." Well, again, the relevant comparison is not the United States now and the Industrial Revolution then. It's the people living then as compared to what they were living like 50 years earlier.

By the way, that's also a fact that needs to be borne in mind in some of your related work, on sweatshops. I want to have you on when your book on sweatshops comes out, so I don't want to give too much of it away. But you do have a book coming out. Is it published by Cambridge?

**POWELL:** Yeah, it's coming out this December with Cambridge University Press. It's called *Sweatshops: Improving Lives and Economic Growth*.

**WOODS:** Because there people would say, well look at this kid working in a sweatshop, look at this adult working in a sweatshop, and compare it to some guy working at Google.



**POWELL:** Right, it's just utterly the wrong comparison, and you're absolutely right about the conditions during the Industrial Revolution and the change, but what most people miss is we didn't get our laws and our big government mandating safety standards and child labor laws and such until after those problems basically disappeared already because of market forces. The first child labor law in the United States was in my home state Massachusetts, and I think it's something along these lines and this isn't precisely right, but this is basically what it said: Children under 10 years old can't work for more than eight hours a day in factories. So basically it wasn't much of a binding constraint at all, and that was in the mid 1850s. We didn't get national child labor law until the 1930s.

**WOODS:** Getting back to Somalia, what is it like living there, though? Maybe they do have better economic performance than some other African countries, but as an absolute standard that's not anything that would draw me to move there. I know you're not claiming that we want to move there. We're just trying to draw some lessons. But how is it possible? Is there any law and order at all, or is it just absolute chaos, and people are throwing rocks at each other all day?

**POWELL:** Let me try to break your question into two separate ones. One is, how are they doing in this statelessness? And two: is statelessness chaotic Hobbesian anarchy, or is it anarchy with governments and laws? Let's take the first one. So what we did is we looked at, I think it was about a dozen or so different standards-of-living measures that we could get consistently reported from Somalia over a period of about 25, 30 years, and the other 42 sub-Saharan African states. We looked at things like life expectancy, instances of immunization, access to improved water sources, infant mortality, and interestingly also telecommunications access both in regular telephone lines and cellular telephone lines, things like that. So we're trying to get as broad a measure of standard of living as possible.

What we find is most of these—so we look at it in 1985, 1990, and 2005, and we're looking at: "what was the effect of statelessness?"—Well we see in both of these, Somalia's ranking among the 42 sub-Saharan African countries is declining dramatically from 1985 to 1990, its last years of having a state. It's improved dramatically in a number of these measures. They rank in the top half of African countries in roughly half of the measures. They're darn near the top in terms of access to telecommunications, because the rest of that continent is just a disaster with state monopolies. And interestingly, this is a tough thing to do well. It's not like a trivial market to solve, because there's potential spillover here like cellular phones, anybody can throw up a cell tower in Somalia which should get your prices down, but you have the potential at least for overlapping use of radio waves or cell phone radio signals. But yet, we find that they actually have one of the clearest signals in all of Africa coming out of that country. So the market seems to have sorted that out fairly well.

Important I think is life expectancy. I think Somalia's the third-biggest improver since 1990, and life expectancy on the continent of Africa. So basically what we're establishing here is not an absolute standard. I'm still sitting and talking to you from the United States. I don't plan to move there. The point is how well have they done compared to what they were like? And they've improved in absolute terms from what they were like, and they've improved not just in absolute terms but relative to the average improvement that happened in the continent. So standard of living measures are low, because it's poor.

But they're getting better during statelessness—not worse, as many libertarian critics would suggest.

**WOODS:** But how exactly then does law and order occur? You would take for granted there has to be some kind of law or some kind of security provision. Then who's doing that? How is that all occurring?

**POWELL:** So that's the key, is that there is—because of course, you couldn't have improving economic conditions or other standards of living performance without having some sort of respect for property rights, some sort of system of governance of law. And the Somalis have that. The best book on it is actually called the *Law of the Somalis* by van Notten. It came out maybe eight years or so ago, and what he documents is that there's a robust customary legal system that's always operated in Somalia but was pushed back to the rural areas, first under colonialism and now under their national state. That is what's come out and provided the law and order in Somalia since the collapse of the state. Basically the way it works is they have a legal code that specifies activities that are illegal. If you believe you've been wronged by somebody else—and these largely focus on things libertarians would care about, about physical invasion of people's person and property—and if you have a dispute, you are born into a clan in Somalia, and you go to your clan elder and tell him what the dispute is. Tom, if you and I are both in the same clan and one of us goes to the elder, the other one's just called before him. He'll make a decision, and that becomes binding on us.

The decision—there's no Somali jails. It's a restitution-based legal system, so it's provide compensation. The legal code spells out actually in livestock, and in practice, it's done with money. Now, exactly how much you're supposed to compensate somebody for different types of rule violations—it's easy enough when you're within the same clan, but they also get extended order and law out of this. Of if you're in one clan, and I'm in another, we both appeal to our own clan elders. The two of them try to mediate and come to a mutual decision. If they can't they appeal to a third party clan, somebody else who will then make a decision that becomes binding on both clans. These elders that are selected aren't like a hereditary title. They're chosen voluntarily by the community based on custom. “Are these people the best at interpreting what current custom is?” So it's a customary legal system much like old English common law before the royal governments interfered with it.

This is how the law evolves, through kind of like a common law dispute resolution system. As one ruling is made from the third party clan, that becomes the norm for all three of them. The law spreads organically like this throughout Somalia. So what it does mean is that the law is kind of slow to change, so one thing that it hasn't been particularly good at is adopting outsiders largely because the customary legal system was working in the background and wasn't allowed to deal with international trade issues under the nation-state and under prior colonialism. But the system has worked relatively well at providing law and order. So there is still crime. But there's not like wide-scale Hobbesian anarchy or anything like that in Somalia. Most of the violence we see is centered around Mogadishu and attempts to install new governments there.

**WOODS:** I often thought that, especially when we're talking about people like you and me who favor the stateless version of libertarianism, that you can't really evaluate a situation like this completely when

you have a situation where most people have never heard of the option of a fully stateless society. I'm sure many of them feel like probably someday we may go back to the system where there's a state, and in which some people monopolize some services. So it's not a real full-scale test when you have a lot of people pouring energies not into entrepreneurialism but into political entrepreneurialism, into hoping that maybe someday we'll be the monopolists again. Most of these people have not cracked open books and read Rothbard and thought: "Okay, let's see. Maybe we can have entrepreneurial solutions to the security problem or whatever." So in light of that, since most people have no idea, they've never philosophized about it or never thought about a blueprint of what society would be like, it's all the more impressive that when you have a non-state legal system like this that it produces at least a tolerable outcome.

**POWELL:** Yeah, and I think you point to a couple key things in here. First, under the first like four or five years of government collapse in Somalia, there was widespread civil war, because different clans were trying to make themselves the new monopoly. Because their entire experience with government has been an extremely predatory, extractive one, and they wanted to make sure they were on the receiving end. They only settled down once it was clear that there wasn't going to be enough force by any one of them to establish themselves as a new monopolist. Then they kind of settled into this more peaceful equilibrium.

I think you're exactly right about the United States. This Somalia research I've done is not like, "QED, anarchy works great for the United States." I think if we abolish the U.S. state tomorrow, we'd probably have a U.S. state again the next day or some collection of states and most of them would be worse than what we have right now. Specifically because we don't have the ideology of people thinking about these alternative systems as much as we should. But I would encourage people to think about, how much law and order does our society get that really is non-state right now? If you think about the vast majority of at least commercial situations that you find yourself in, most of them aren't going to be practically enforced by formal law.

I mean if you ever ate at a restaurant, how easy is it to just walk out on your check? Virtually any restaurant I've ever been in, I would have been able to walk out without paying, yet we don't. With as many informal norms and customs, internal moral constraints constrain what we're doing. So does reputation or a number of other commercial mechanisms that mean we don't have to rely on our formal governmental legal system as much as many people believe—that seems to be what's giving us order. It's actually not.

**WOODS:** Our mutual friend Ed Stringham has a really great edited collection of articles and essays on the general subject of how it's possible to have law without monopolistic state provision. It's called *Anarchy and the Law*, and it just blows your mind. That book and Bruce Benson's book *The Enterprise of Law*, were a couple of the most mind-blowing books I encountered in my sort of, I hate to say, reeducation. It sounds Stalinist. You know what I mean. My evolution. That flows off the tongue a little bit better. But what do you recommend people read—I mean, now that we're sort of a little bit off the specific case of Somalia, but what we are trying to talk about here is the possibility that people could have some kind of remote prospect of civilized life without Nancy Pelosi or John McCain. This is strong medicine for a lot of people. Where do you direct people when they're sort of curious about this? They're not entirely

convinced, but they're willing to give you a shot.

**POWELL:** I have a few for you here, but first just in light of mentioning Bruce Benson's book, it is a nice bridge to Somalia topics actually, because Bruce and his *Enterprise*, there's a lot of historical description of how early English common law evolved and worked and then how it eventually became a government monopoly. What he describes in there is a restitution-based common law legal system based on custom. It's not unlike the system that we find in Somalia today. What he documents is that there was no failure of the legal system that led to the change to a governmental one. It was marginal encroachments by the crown again and again that monopolized more of the crimes and revenue for itself rather than some failure of the spontaneous system that was there. So it's an absolutely fantastic book.

Other places you can look—actually a great starting point to plug one of my own things with Ed Stringham, our friend that you mentioned—the two of us did a survey article a couple of years ago. It was called “Public Choice and the Economic Analysis of Anarchy,” because we knew even among our scholarly libertarian friends, many of them didn't really know the vast amount of scholarship that's been published on anarchy, not just within libertarian-type journals but in mainstream economic journals. So we did a collection that reviews everything that's out there. You can get that off my website [www.Benjamin-WPowell.com](http://www.Benjamin-WPowell.com). It would be on a page called Scholarly Articles, and there's one there that says “Public Choice of Economic Analysis of Anarchy,” and you can download it there. It's just a ton of literature that it can refer you to. For books that's really encouraging, there's going to be two very interesting ones coming out over the next about year and a half. Stringham's got a new one that he's working on that I think is going to be about a year and a half out, and Peter Leeson's got one out. I think it's called *Anarchy Unbound* that's going to be due out I think it's in February or the spring. His is studying how violent private enforcement can make anarchy feasible, whereas Stringham's is much more on how passive and cultural norms can do a lot of the enforcement for us.

**WOODS:** I just talked to David Friedman the other day, who tells me he's got a third edition of his *Machinery of Freedom* coming out, because he's given a lot more thought to a lot of these issues, especially the hard case of national defense. So I don't know if it's some kind of crazy renaissance we're living through, Ben. I mean who'd have thought ten years ago that we would be living through such a thing? But here we are.

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# Be Prepared

## Guest: Jack Spirko

### November 4

*Jack Spirko is the host of The Survival Podcast ([thesurvivalpodcast.com](http://thesurvivalpodcast.com)).*

**WOODS:** Let's start off with a simple question: why preparedness? Is this the sort of thing that only people who are afraid of the government should be worried about? Of course that's 99 percent of my listeners, but what kinds of things should people be prepared for and why?

**SPIRKO:** You bring the government up, and there are a lot of people that come into the preparedness world because of the government, whether they look at the government and they have fears due to their incompetence or their malice. And I think both of those are actual threats. But it's actually not the main reason I would give somebody to be prepared. The main reason is, things go wrong in the world. The government and the things government does are just one of the things that can cause you to need something that you don't have.

I grew up as a country boy in the Appalachian mountains of Pennsylvania, and a lot of the things that we're doing today that we call preparedness my grandparents just called living. We understood that if the power went out, you needed to have ways to deal with that. That if you didn't have your furnace working in the winter that you'd be very, very cold. We all hunted and fished. That was the way that we supplemented our food supply, so I came to this whole thing with that bent in mind. But as I looked around at society as I left small-town America, and I became very successful in business, I started to make the same mistakes everybody else does.

I started watching simple things like the news. You watch big events like Hurricane Katrina or Hurricane Sandy or some of the major tornadoes in the outbreak of 2011, and that wakes a lot of people up. But if you think about it, there are people that are going without power on a daily basis somewhere. It's some small insignificant thing that we don't even hear about. I always try to actually take the people that are like, "I've got to get prepared, because the governments going to bankrupt the country," or whatever. It's like, can we just back up and get you prepared for the power to go out for three or four days or to get you prepared for losing your job and having to go 30 days without a paycheck? If we started there, then all of it starts to fit together a lot easier.

A lot of people are likely to say, “I don’t know anything about this.” And the reality is you know everything about this, because you know the things that you depend on. And you know the things in your life that are most at risk. Tom, the way I put it for people is, let’s say that we were in Miami, Florida, and you wanted to go to Philadelphia, Pennsylvania. We’re going to go through Jacksonville. For those that know the East Coast, anyway, and we can get there without going through Jacksonville, but it won’t make anything easier. It’s going to be much easier to take that straight line approach up the coast, follow I-95 all the way up through the District of Columbia into Philadelphia, Pennsylvania. Since we want to get to Philadelphia if that makes sense, and we’re going to go through Jacksonville and other places anyway, we start off with very, very simple things to get prepared to deal without systems of support.

My biggest thing I try to teach people is you do not prepare for a disaster. You know that show *Doomsday Preppers*. They’ve got people coming on, “I’m preparing for an economic collapse.” People say, “What are you preparing for?” I’m preparing to deal without systems of support whether it’s a few or all of them. So look at the most critical needs first, and if you do that the biggest reason I can give you to do so is you actually live your life a lot more boldly day to day even when nothing goes wrong, and one of the biggest things that government uses, if you want to come back to that here at the end of this to actually make people willing to take their deals to compromise to give up their liberty, is the fear of “what if.” “What if we weren’t here for you?” The more we can build of a culture of preparedness, the less we have people that are willing to make that deal. So everything from a small inconvenience to a job loss to simply empowering this nation to be able to take their sovereignty back—those are all great reasons to be more prepared.

**WOODS:** Let’s take an example of the kind of a skill that you teach on your survival podcast that the average person can learn relatively easily and then can be part of their survival approach.

**SPIRKO:** There’s a lot to that one. That gets pretty deep. If folks want to get on my site, it’s [www.the-survivalpodcast.com](http://www.the-survivalpodcast.com). I think I did Episode 1,238 today to give you an idea of the volume of information that we’ve put out. We do that five days a week, but you’re hitting on something very important. So I’m going to back off that for just a second and talk about things and stuff versus skills just real quick.

**WOODS:** Yeah, sure.

**SPIRKO:** So the first thing that people think is, well, I need food. I need water. I need some kind of backup energy source and the basics of that we could do an hour and just cover the basics of that. But that is a great place to start, is the stuff. Where you need to move to very quickly from there, though, is skill sets and knowledge. And like one of the things I focus very, very heavily on is being able to produce your own food. I’ll start somebody out with anything from an herb garden in a pot to getting them to terraforming an entire yard and produce half of their own food or more. And the reason I’ll do that and focus so much on that is I’m going to ask you a couple of questions, and they’re not rhetorical. I want an answer from you. Have you ever had to shoot anybody in your life, Tom?

**WOODS:** No, although if I said yes, people would demand another episode on that.



**SPIRKO:** Other than schoolyard fights and stuff like that do you regularly get into physical conflicts with people?

**WOODS:** No.

**SPIRKO:** How often do you eat?

**WOODS:** Multiple times a day.

**SPIRKO:** Correct, and you'll do that every day until you're laid to rest, so to speak. You're going to have to feed yourself, and the problem I see in preparedness—and I'm a huge advocate of the Second Amendment. I'm a big believer in tactical training, self-defense training. I'm not saying those things aren't important. I'm just saying that that's what people gravitate towards, and the first thing you've got to think about is how am I going to be able to feed myself. So the skills that I want to teach people are, one, how to produce your own food. Two, how to preserve your own food. Three, how to procure food, so learning basic wild crafting. There's probably something that could provide food for you within a mile of your home if you learn what it is.

I also want people to understand how to adapt to situations, so we start walking the line of critical thinking. I know you're big on that. I've heard some of your talks about government, which are outstanding by the way. The way you lead people to an understanding that government isn't all it's cracked up to be is to critically analyze: let's take the free market, and let's compare it to government. Let's see how the two don't quite get along and which one is really a superior solution. That critical thinking aspect then needs to be applied to things like preparedness. There are people that could be in a situation where they have everything they need to survive, but because they don't have the knowledge to go along with it they end up really miserable or dead.

Here's like a wilderness survival example. There's been hunters out in the woods who get lost, freeze to death or just spend a couple of nights really miserable, because they can't get a fire started. They can't do a friction fire or whatever, but they're walking around with a gun and ammunition. Now, if you have that and a little bit of knowledge, you should be able to start a fire using one of the cartridges by removing the projectile, dumping out most of the powder, put a little bit of powder back into it, take a piece of cotton like off of the shirt or something, put that into the cartridge, fire that with the primer and a pinch of powder out of rock. Pick it up, blow on it, use the rest of the powder as an igniter for your tinder.

Every single hunter that I know of that hunts in firearms season is walking around with a fire-starting kit. But yet we have people that end up lost in that situation that end up huddling under a bunch of leaves freezing cold when they could have a fire. That's just one thing, so I think the skill set stuff it's so big. It's hard for me to pin down a lot of specific examples for you, but what it really comes down to is just critical thinking. Start looking around. And the biggest thing I wish I could teach people is whenever you're in a situation, whether it's you're stuck in business, or you're stuck in a survival situation, first rule: Stop. Don't panic. Think. Assess the situation. Two, ask yourself, What are my tools? What do I

have available to me? Three, how can I apply them? And if we did that, we'd get further in life. We'd get further in crisis situations, and frankly we would turn a lot of crisis situations into simple inconveniences.

**WOODS:** Jack, a lot of times when the media doesn't really like a group, it will invent a name for that group, so you've got the "Birthers." You've got "Tentherers." Now you have the "Preppers." But on the other hand, though, the fact that they're developing a name for a group means the group is growing, means the group is identifiable. If it were just ten people, they wouldn't bother to come up with a name for them, so I take that to mean that the community of people who are interested in the kind of things you're doing is on the rise. What do you attribute that to? Do you think it starts with the antigovernment people and then once they get deeply into this, they realize, "Wait, there's a lot more than preparing for economic Armageddon in 2035. There are things to prepare for here in 2013."

**SPIRKO:** Correct. I think it's a mixture of things. I think the antigovernment sentiment has something to do with it. I think that when people start looking at a national debt and seeing it cross \$17 trillion—I think to be fair to some of the people out of the establishment, Comptroller David Walker, when he started doing his thing seven, eight years ago now, coming out and talking about unfunded liabilities, a lot of these things have shaken people to at least start asking some questions, and that really gets you in the right direction. I actually think it's a much deeper thing. I mentioned my grandparents. My grandparents were part of the World War II generation, what we commonly refer to as the Greatest Generation. I'm not sure—I think maybe the greatest generation might have been the Homesteader Generation of the mid-1800s, but we'll leave that aside for now.

One thing we do know is our grandparents were tough people, and they understood how to get through tough times. That gave way to the baby boom generation. The Baby Boom Generation gave birth to the tweeners and Gen X and Gen Y. We got into a point where people were living off the fruits of the labor of the previous generation and had lost a lot of the wisdom and had gone into what I call a false happiness. I'm happy, because I have shiny things, paid for with plastic. Over time, a lot of that started to wane, and the supposed dream began to cave in for a lot of people. You have people coming out of college today—not just the people with a degree in gender studies or some nonsense like that that they paid \$150,000 for—but people with legitimate degrees that are having a hard time finding jobs. What they end up doing is starting to figure out everything's not the way it was promised to be, and they start asking questions.

When you get into the preparedness mindset, you start to learn again traditional skills. You start thinking about growing your own food. You start to find out what's wrong with the food supply. And there's about a million different avenues that people can come into this world from. Once they get in they are all interconnected. You learn your food's covered in poison. You learn that the government's not taking care of you. Everybody that comes in initially is either a Democrat or a Republican. Few remain that after a few years into the analysis, because they realize it's just marketing.

I think it's when you touch the power of knowing, I can take care of myself, it actually feels really, really good. I think when people feel good they tend to keep doing something. When they feel good, and they

keep doing something, they start telling other people about it. I can tell you the exponential growth I've seen with my show. I started my show in 2008, in June, and I was screaming at people to get out of the stock market. I was largely political and financially focused at the time, because that was the big crisis I saw coming. I had about 2000 people listening by the end of 2008. As of this week, I get an average of 85,000 plus downloads of my show a day. So that's the growth that you're talking about there, but you would think the survival podcast was all gloom and doom. It's probably the most positive survival show out there.

Just coming back to where you started this question about how they've taken preppers and tried to almost put a negative connotation on it, the ironic thing is the word "prepper" came from people that were called survivalists who wanted to soften the name itself. So it started out with "survivalist," going, "You know what? We'll call ourselves preppers, because you're getting the wrong idea." So the media just said okay fine, we'll spin that. I mean the reality is I call it modern survivalism. Because I am concerned with my survival and your survival, and the survival of all the people in my community. Anybody that says that they're not a survivalist, I'm going to ask them to stand still while a bus hurls at them at 80 miles an hour. As soon as you jump out of the way, I'm going to call you a survivalist, because clearly you don't want to die, right? Or you don't want to be miserable. That's the big part of it. I'm as much concerned with trying to keep people alive as I am trying to keep them out of as much misery as I can.

**WOODS:** Anybody who, by the way, would think that you specifically are involved in doom and gloom should just look at the topic list on the Survival Podcast, because to me, even though I'm very, very new to all this, I never thought of it as being something negative or scaremongering. What it actually is doing is saying, "Look at how much you have in your own two hands that you're capable of doing, and you just don't know it yet." In other words, instead of just saying everything's going to hell in a hand-basket, and there's nothing you can do, they're plenty of things you can do. There are plenty of things you specifically can do. You've also been giving advice to people about creating more stable incomes for themselves. It's not just a matter of, "we rely too much on Frankenfood or agribusiness," but we rely too much on an employer to put food on our table, to put money in our pockets. You've also been talking about prepper sort of stuff related to that.

**SPIRKO:** I'm telling people to build businesses, and I'm building multiple business units myself. People are like, "Why are you building businesses if the economy might collapse?" And I'm like, because the economy might collapse. I mean this is the problem that when people start thinking about economic collapse, they think of it like a light switch. It's on one minute. It's off the next. But if we look at societies that actually experience economic collapses, it's not like everything just goes away. It's that there's a lot of misery and pain, but I know one thing. Tom Woods probably won't fire Tom Woods. Jack Spirko's not going to fire Jack Spirko. Even if the business you've built doesn't survive, by building a business now, you teach yourself the skill set and the mentality necessary to be an entrepreneur, because there will always be opportunities.

In some cases, the greater the crisis, the greater the opportunity. But what would we do if X wasn't available? I'd say, well people that know how to do that have a great opportunity at that point whether

it's for cash, whether it's for barter, whether it's for silver. It doesn't matter what it is. When we look at Argentina, we look at the economic collapse of the Soviet Union. You go all the way back to the fall of Rome. None of these societies simply dried up and blew away. And a lot of times, there's an economic collapse, and there's a period of prosperity after it. I'm not betting on that one this time around, and you're probably not, either.

But just to give you a classic example: whenever somebody wants to sell you gold, they always talk about—you know what it is?—Weimar Republic. What they don't tell you is that lasted about three years, and for ten years after that, there was an economic period in Germany called the Golden Era, and that ended when we went into the Great Depression. That whole piece of that story gets left out, so there's always cycles in economics. I don't like where the next cycle's going but I think if you're prepared, and you understand how to capitalize on opportunity, know how to build businesses, know how to build teams, I'm not saying everything's going to be hunky-dory, but you're sure as hell a lot better off than the guy that has a job just bolting tires on cars or working in a government office processing paperwork or programming a computer. If you program computers today, you really probably shouldn't be working for anybody else. You probably should be freelancing and working for yourself.

**WOODS:** When you started this podcast back in 2008, and you had the 2000 listeners by the end of the year, you probably didn't imagine where you would be in 2013, but are you basically doing this kind of activity full-time now?

**SPIRKO:** Yeah, I actually was a partner in three different traditional businesses. One a majority partner and a minority partner in two others, and actually a partner in a holding corporation that owned the whole lot of them. And I was doing the traditional thing, and when I went to leave, and I basically sold my interest out for next to nothing to all of my partners in the other businesses, they thought it was crazy. I did not know it would become what it has become. I knew that if I took this and ran with it, because I'm good at what I do, I would be successful as a business with it.

What's actually been astounding to me is the community that's rallied around it. We've been able to do things for people all over the country. We've taken up certain causes and certain fights to help people keep their property or to deal with situations where government was oppressing them. In one particular instance, we picked up an issue for a lady named Jan Cline out in Oregon. I don't know if you've ever heard about this. She's pretty big in the news. She was dying of bone cancer, and Glenn Beck picked up her story and ran it on The Blaze. My little podcast out-fundraised Glenn Beck and The Blaze. That's not me. That's the people in my audience. The forum that's formed around that. And we're doing training now at my property. It's a limited number of people we bring per training, but we've had people come out here, spend time here, and learn.

But the after-hours stuff, hanging out at the campfire, talking to each other, we've had people that have been to our events say that if you guys do an event on paint drying I'm coming back, because it's that type of a community. It's that type of people that really understand that we are to be looking out for each other, but we're also supposed to be responsible for ourselves and our families first. That's the bigger

story. Building a podcast into a business is one thing. Building a community of people that self-replicate and do good things in the world, that's the bigger thing as far as I'm concerned.

**WOODS:** And it's so hard to predict. As I said, when you got started, you probably had no idea where it was going to go, and now you look at it in absolute amazement. I see that too. I just had this guy, Robb Wolf, who's one of these paleo eaters, on.

**SPIRKO:** Yeah I love Robb. He's a friend of mine.

**WOODS:** Okay. I mean he's another example. He's built up a tremendous community around the kind of information that he spreads, and he had no idea that all of a sudden he'd be able to make a living at this doing something that he knows is making a positive contribution and where he would be difficult to replace. There aren't a whole lot of Robb Wolfs in the world.

**SPIRKO:** In fact, I have to say that I owe my current state of health to Robb. I found his book several years ago. I was almost 300 pounds. I'm about 205 now, somewhere in that range. I played football in high school at 190. I'm in my 40s now, so that's about as good as it's getting on my end as far as I'm concerned, as far as the weight that I'm carrying. He had a tremendous impact on my life, and if I had to say what makes him successful, what makes shows like mine successful, I think as a bigger thing, it's having this impact on people's lives. It's not just you can't be easily replaced. I've had vets tell me that what we're doing—it's hard for me to even say this, because I don't feel like I get this credit—what we're doing and what we gave them is something they can grab onto, prevented them from committing suicide. I had a woman at an event I attended come up to me. She was probably in her late 60s. She found the show, because her friend said she needed to listen to it. She thought that we were crazy at first, honestly, but what we said started to make sense.

She was very, very high paid, but something clicked, and she started just doing these basic things and setting her life up with more redundancies. And then she got hit with some sort of an illness. I don't remember what it was, but she ended up on disability. So she went from a six-figure income to disability salary. And she was like, "My life is still okay, but if I had not been prepared for that I would be in a real hard way today," and she had tears in her eyes. When you can hit people like that, and at the same time you're trying to get them prepared for the worst of the worst—but I mean I'll put it this way, the catchphrase, the worst catchphrase in marketing, but it was the only thing that made sense. So I did it anyway. Even as a marketer I knew it was wrong, but it worked. And that was, "Helping you live a better life if times get tough or even if they don't." And that's what we're really trying to do. If you can't make yourself happy today, what hope do you have of making yourself happy in post-collapse society? And the answer is none.

**WOODS:** Well, Jack, I really appreciate this chat. I would say that by any definition of success, you can count yourself a success. I know that you would say that it's more important than all that. But being a success means helping other people. And you've done it in ways that you find out every day, and ways you'll never know about, so I want to give people—especially since I'm still new at the show—in the

first programs, I want to acquaint people with people I respect and get the basic gist of what it is they do. So maybe they'll plug in with these other people as well. I'm so glad you were able to carve out some time with us today. We really appreciate it.

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# The World's Happiest Country?

## Guest: Christian Bjørnskov

### November 5

*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 which very, very rapidly made the rounds on Facebook, tell us what exactly is this happiness literature? 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 best themselves, 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 people say, "Oh, this makes me happy," because they think it ought to make them happy. It gives them 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 there about what it means to be good at math and the expectations that your parents have. 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 happiest country. And of course, right away there are political implications of this, because you know as well as anybody that Denmark has a very substantial public sector. And so 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. So 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 as 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. Just because I do want to review with listeners 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 Australia has a high minimum wage. Australia seems to have robust employment figures; therefore we should have a high minimum wage. 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.

So the first item in this Huffington Post article is "Denmark Supports Parents." They say that, "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. What the welfare state does, it 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 level. What it does is, in the 52-week maternity leave, 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. "Healthcare 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, from an American standpoint, the 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 that 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. The public sector is financed, because if you look at other parts of Danish society they are way 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.

**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 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? Where exactly is it in the dynamics?

**BJØRNSKOV:** It's in the 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. That'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 should 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, NGO's, 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. 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. 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 nongovernment. 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.

**WOODS:** All right, so in our closing moments, suppose you are speaking to the United States. Most Americans know pretty much nothing about Denmark. That's just a fact. They know nothing whatsoever about Denmark. So if they read one article about how awesome Denmark is, because of their 52-week maternity leave program and this, that, and the other thing, they're liable to think, wow, I know all there is to know about Denmark. How would you in just a couple of minutes try to explain? Just give people an overview of what the real pluses and minuses are of the Danish system?

**BJØRNSKOV:** The pluses are that it is like a small rich country populated by people from Minnesota. They might not be the most exciting people in the world, but you can trust them. The positives are the high levels of trust and an incredibly strong sense that if something's wrong in your life, you can always

do something yourself. Ninety-four percent of all Danes say, "Sure, I can change things in my life." That's about ten percentage points higher than the U.S. It's also about having a very fair, effective, and completely politically independent legal system, which I think some U.S. states could benefit from having.

The downside is that they have built an incredibly large welfare state that now takes up about half of the economy. So the average, not rich but middle-class person pays a marginal tax of 56 percent. That's not important to happiness, it's not important to becoming a wealthier or healthier society, it doesn't do anything. It doesn't give you what it promises. But we can do that. Because all institutions are there to finance it if we want. The trick is that is all the things that you don't see in Denmark that create happiness that creates the most satisfied country in the world. The great legal system, the incredibly good competitive political systems. We have eight parties in parliament, and that level of trust means that you can play golf with your garbage collector. It doesn't matter, because you still think he's a decent bloke. So if you see Denmark as the happiest country in the world, it's true, but it's not for the reason you think.

**WOODS:** Suppose you had a crystal ball, and I wanted you to look in it and tell me if I were revisit this and look at Denmark 20 years from now do you expect Denmark to be much different, mildly different, or the same?

**BJØRNSKOV:** I would expect that you would find a country with a slightly smaller welfare state but more or less the same, but you would probably think that the citizens of Denmark were awfully spoiled.

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# That Australian Minimum Wage

## Guest: Ben O'Neill

### November 6

*Ben O'Neill is a lecturer in statistics at the University of New South Wales in Canberra, Australia.*

**WOODS:** Right now there's something like a five to six percent unemployment rate in Australia. When you look at the figures for unemployment in the U.S. the figures are all screwy, and the government's manipulating them to seem lower than they are. Unemployment turns out to be much worse than the official numbers make it seem. Is there anything similar going on in Australia?

**O'NEILL:** Yeah, there are certainly a lot of the same things. I can't speak comparatively about the degree to which the U.S. or Australia is worse in that respect but certainly the same kind of fudging of figures goes on here. The AVS, our Australian Bureau of Statistics, which looks at unemployment figures—although it does calculate an unemployment rate of around five to six percent, it also has another measure called “Extended Labor Force Underutilization,” which looks at underemployment and things like this. The reason that they have this other figure is that within their unemployment figures they'll count someone as employed regardless of how low a number of hours they work. So even if a person was to work one hour a week, that'd be classified as employed.

When you look at the underutilization figures, the more realistic labor force figures, the rate of underutilization is a bit more than double the official unemployment rate. It's at around 14 percent at the moment. There's also been a lot of shifting of people away from the job-seeker classification that counts in unemployment figures towards non-job-seeker classifications through a big push within the welfare system to get people into education and training, and also an increase in people being classified as disabled. There are a lot of similar things in Australia going on in terms of how these figures are, I'd say, manipulated. Partly it's manipulation and partly it is just a genuine effect of efforts to put people into education and training in cases where perhaps otherwise they would be looking for work. Certainly the five to six percent figure really understates the situation a lot.

**WOODS:** How high is the minimum wage in Australia?

**O'NEILL:** On the face of it, the minimum wage here is a little over \$16 an hour, and that's probably the figure that gets reported a lot in the U.S. But it's important to understand that in Australia that minimum

wage figure applies to workers over 21 years old. We actually have a system of graduated minimum wages for younger people. Minimum wage, you need to understand, mostly affects low-skilled workers and therefore mostly affects young people. At the younger end of the spectrum in Australia, the minimum wage is graduated down to as low as about \$6 an hour for people under 16. Then it goes up gradually with each year of age from then until it fits the adult figure that's a bit over \$16 an hour. Although you probably hear the \$16 figure in the U.S., and that is correct for people over 21. For the people where the minimum wage is actually biting a bit, I suppose in terms of unemployment, the very young, the figure is much lower due to that graduated system.

**WOODS:** That is an important factor. This is the key thing. When understanding the minimum wage, you have bear in mind that the number of people who are likely to be earning a wage that low is not that great to start with, and most of those people are going to tend to be the younger people. So they've already been in a way accounted for here in the graduated system. Here in the U.S., basically in any country, you ask economists about the minimum wage, and the consensus is that it creates unemployment. In recent years, some economists have softened a bit on this. Is it the case, though, that if I travel to Australia, economists are going to give me a completely different view? They're going to say, "Well, here in Australia somehow we've made it work"?

**O'NEILL:** No, I don't think you'd get a different view. I think to begin with even just having that system of graduated minimum wages is itself an admission by the government that they understand that the minimum wage does cause unemployment, particularly among the young, and therefore, they have these lower rates for younger people in order to reduce the extent to which that occurs. If you are talking to economists in Australia, I guess I can't give any view of the broad consensus. But I know at least in studies on the minimum wage in Australia that have been undertaken, the findings have been broadly similar with elsewhere, which is that when there's an increase in the minimum wage labor demand goes down and unemployment results. Again if you had to look at the scholarly literature in that area, you see that that's detectable mostly among young people, so I think that that's well understood here also. Australia isn't really some magical place where somehow the laws of economics don't apply. I think that's reflected in the graduated minimum wage system, that the government already understands this is an effect of their policies.

**WOODS:** I can imagine an objection like this, though: "Yes, it will have some disemployment effects, and yes it's true that the employment picture in Australia is not as rosy as it may look. Neither is the employment picture in the U.S.—"

**O'NEILL:** Sure.

**WOODS:** "—The point is that if we implemented a \$16 minimum wage, assuming a dollar for dollar exchange rate, sure, it would have some depressing effects. But apparently they wouldn't be catastrophic, because look at Australia."

**O'NEILL:** I guess it depends what you mean by catastrophic. I don't think the imposition of a minimum

wage ends the universe, but it does have negative effects. If you had a look at the Australian case what you do see is that unemployment outcomes due to the minimum wage do show up to some extent across the age ranges, but they are concentrated among that low group. It's important to understand when you're talking about the minimum wage that the minimum wage actually only does anything in terms of (a) affecting people's wages and (b) causing unemployment. In situations where economists refer to it as being binding, meaning in order to do anything it actually has to specify a wage which is somewhere in the vicinity of the amount of money people are earning in that area—if you were to impose a \$16 minimum wage on neurosurgeons and move stars or something like that, it would simply do nothing.

**WOODS:** Right.

**O'NEILL:** So if you were to impose a very high across-the-board minimum wage in the U.S., perhaps even targeted only to people over 21, similar to the Australian system, the effect would be that on high-income earners nothing would happen. Wages would continue as before, and there would be no unemployment. But on low-skilled people, and there would be some in the older age groups, it would then price them out of a job effectively.

**WOODS:** Is there anything else that you want to say on the general subject of the minimum wage that's unsaid up to now, or do you feel like this is more or less the case?

**O'NEILL:** I think the most important thing for people that aren't that familiar with what the minimum wage does is just to have an understanding that all the minimum-wage laws actually do is prohibit employment contracts operating with a wage in a certain range. And in Australia, for example, it's legal to employ someone for zero dollars an hour, and it's legal to employ someone for \$16.37 an hour or more. But it's not legal to employ them for any amount of money in between that. So all the minimum wage does effectively—it doesn't create any new jobs, it doesn't create any new capital or new resources.

All it does is prohibit certain mutually beneficial exchanges of employment. That necessarily means that anyone who would have liked to enter into an employment contract in that wage range, perhaps because their productivity is not high enough to justify a higher wage, now cannot do that. I think when people understand that all the minimum wage is is a prohibition on working under certain circumstances, that becomes clearer. I think people sometimes have this foggy view of the minimum wage, of thinking that it's a law to raise people's wages. Actually all it is is a simple prohibition. It prohibits employment contracts that operate in a certain wage range.

**WOODS:** But I think some people have a faulty understanding of how wages rise in the first place, and I think they think that without a minimum wage, there would be employers who could just arbitrarily keep wages low, and the minimum wage is really the only way we can get unorganized and unskilled workers any type of a boost. So, yeah, it's true that it is simply a prohibition, but on the other hand these fat cats are going to need laborers, and this will force them to pay at least a little bit more to those laborers.

**O'NEILL:** I do agree with you that a lot of people think that way. I suppose to those people I would

ask them if they believe that it's true and that employers can simply arbitrarily set a wage as low as they want. Why are there any jobs that pay above the minimum wage? I mean, there are jobs—for example, my academic job pays well above the minimum wage, not even close to it, and there are people that earn an enormous amount more money than me. There are movie stars that earn millions of dollars a year. I mean, tens of millions of dollars a year. If it were true that employers can simply arbitrarily pay people as low as they want, absent the minimum wage, then those things wouldn't exist. So I suppose people who are thinking that way—I guess I just urge them to have a look around at just jobs in general and ask why it is that anyone earns more than the minimum wage if that's the case.

**WOODS:** As long as I have you for X minutes here, and we've covered the minimum wage, I was looking up the sorts of things that you've researched and written about. You've written about one law that is even more popular than the minimum wage, and that is antidiscrimination law. Now, everybody favors antidiscrimination law, don't they? And if not, why shouldn't they?

**O'NEILL:** Well, almost everybody, I suppose. I don't favor it, and so that's what my writings have been about. I'm a statistician by trade, so this is my area of interest. One of the things that being a statistician teaches you is the extent to which you can use information about other people as proxy characteristics to try to infer other things about them, and antidiscrimination law in large part prevents that occurring. It creates a situation where certain kinds of logical inferences are regarded as unlawful and are attacked as being irrational, when in fact statistical inference tells us that it's often quite rational to discriminate against people on all sorts of grounds, including even the kind of verboten grounds of sex, age, race, and so on. There are instances where it's perfectly rational to discriminate on those grounds. Certainly I'm not saying that all discrimination on those grounds is rational, because it's certainly not. There are instances where sex discrimination or age discrimination or race discrimination is rationally justified and I think morally justified. Antidiscrimination law prevents that. For that reason, I refer to it as a system of mandatory irrationality.

**WOODS:** When you make a claim like that you're going to have to give some specifics, so give me specific examples.

**O'NEILL:** An example I like to use is an example from the 1980's in Washington, D.C. There was a study of taxi driver service in Washington, D.C., and essentially, the study found that taxi drivers were less likely to pick up passengers who were young black males. I can't recall the exact methodology. But assuming their findings were right, and I think it's quite plausible that they were, both white taxi drivers and black taxi drivers were less inclined to pick up a prospective taxi passenger if he was a young black male. When inquiring into why this occurred, it was simply, "Well, we know the crime rate among this group is higher than, say, I don't know, old Asian ladies or whoever else, any other demographic group, and therefore it's a high risk candidate for us as a passenger."

This was used as a kind of an example of a breach of civil rights and as an instance where political action needed to be taken to stop these taxi companies and these taxi drivers acting in a purportedly racist manner. But when you actually have a look at the kind of logical dynamics of that situation you

have a case where a taxi driver may very well wish to judge a person by their individual merits, but they're in a situation where they simply don't have the information that they need to judge a person on their individual merits. They have maybe five, six seconds to make a decision of whether to pick up a person who's waving them down for a taxi fare, and they have to use whatever observable information they have in that instance to try to determine whether the passenger's high risk.

In that situation, statistical science tells us that sex is a very useful predictor of crimes. So is race. So is age, and so it's perfectly rational for a taxi driver in that situation to discriminate against males and in favor of females. It's perfectly rationale for them to discriminate against young males, in particular teens and young adults. It's also rationale for them to discriminate by race. So I think in those kinds of situations you get a case where actually people are acting perfectly rationally and towards a quite legitimate objective of trying to avoid criminal assault. They're acting in a situation of very limited information, and I don't think antidiscrimination law adequately reflects that kind of situation.

**WOODS:** I remember reading about this, and you're right, the black taxi drivers were just as unlikely to pick up young black males in particular neighborhoods as the whites were.

**O'NEILL:** Sure. They're no less scared of assault than white taxi drivers are, and the inference for them is exactly the same. But it's not surprising to me that that's the case.

**WOODS:** What kind of antidiscrimination law do you have in Australia? Is it similar to what we have in the U.S.?

**O'NEILL:** I believe it's similar to what you have in the U.S. We have a commonwealth statute or a couple of them, in fact, which prohibits discrimination of various grounds. Mostly demographic grounds, sex, age, race, political opinions, pregnancy, sexual status and so on, and in certain kinds of areas like the provision of employment or the provision of goods and services and things like this. So certainly the statutes in Australia probably would be imposed on that kind of situation involving the provision of taxi fares.

**WOODS:** Ben, is there an easy place where people can find your writings?

**O'NEILL:** Sure. Probably the easiest thing would be to Google my name, which is Ben O'Neill, and you'll find my Mises Institute author page, where most of my writings are. Some other academic writings are available through my staff webpage.

**WOODS:** I remember when either I was about to go back home or you were. Maybe it was me—

**O'NEILL:** I think I was over in the U.S. at the Mises Institute, and you bought me lunch I believe.

**WOODS:** —Right. One of us was just about to leave. I think it might have been me. So I took you out for lunch, and I wanted to know what libertarianism was like in Australia. What were the fortunes of

it? How many people were involved in it over in Australia, and I remember your answer was that for whatever reason in Australia people tend to be just middle of the road, not too excited in either direction. And so it's hard to get people really burning with interest and excitement over a philosophy that really is very much one way: individual liberty. It just doesn't seem to fit well with the Australian temperament. Is that still the case?

**O'NEILL:** Yeah, I think it is. I mean the blessing and the curse of Australia is that the people here are very easygoing, and that's nice from a kind of cultural perspective. It does make it difficult to get people riled up about political injustices and things like that. That's, I suppose, just an aspect of the Australian culture and temperament. But the libertarian movement here is growing. I'm amazed now by even just in the last few years the number of new libertarians I've met here younger than me who I didn't know existed, so there is definitely the same exponential growth I think down here as what you guys have been experiencing in the U.S.

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# The Skyscraper Curse

## Guest: Mark Thornton

### November 7

*Mark Thornton is a senior fellow at the Ludwig von Mises Institute, book review editor of the Quarterly Journal of Austrian Economics, and the author of The Economics of Prohibition, The Quotable Mises, and Tariffs, Blockades, and Inflation: The Economics of the Civil War.*

**WOODS:** If I'm talking with Mark Thornton, I could be talking about a whole bunch of different topics. I could be talking about drug prohibition, because you have a book on that. I could be talking about your work on the housing bubble, where you were way, way out ahead even of people who are now priding themselves on how prescient they were. But you've also become known typically for your work on the skyscraper curse, and it's funny: every time there's a new world-record skyscraper planned, the mainstream media calls you for comment. First of all, exactly what is the skyscraper curse?

**THORNTON:** Well, Tom, the skyscraper curse is the eerie correlation between the building of a record-setting skyscraper anywhere in the world and an economic crisis, usually affecting most of the world. This is something I came across in a newspaper in 1999, an article by Andrew Lawrence about this eerie correlation dating back 100 years, the building of the world's tallest skyscraper and an economic crisis. And I immediately saw that the Austrian theory of the business cycle was involved here. He went back and found that the Panic of 1907, which led to the founding of the Fed in 1913, was associated with the building of the Singer Building, which was a record skyscraper, and the MetLife Building, which was another new record. When we get to the Great Depression, we see that the Chrysler Building sets a new record, the 40 Wall Street building sets a new record, and in 1931 the Empire State Building sets a new world record. So you have three records associated with the beginning of the Great Depression.

You fast forward to the early 1970s, when they were building World Trade Tower I and II as well as the Sears Building. Of course, that was associated at the end of the 1960s: you had prosperity throughout the '60s and it became a bubble, and in the 1970s we immediately went into a severe recession. Nixon took us off the gold standard. The British system failed and we had a decade, twelve years actually, of economic malaise combining high rates of unemployment with high rates of inflation and several recessions including 1981, which was really a depression because unemployment was 10 percent and inflation was 10 percent. Interest rates were 18 percent. So again these record-setting skyscrapers tell the story. It's also become more true in recent times in the UAE in Dubai. The latest record was set there by the

Burj Khalifa Tower, a massively high structure that set the record in 2007. I was actually able to time out the beginning of the breakup of the housing bubble with the help of that new record-setting skyscraper.

It was thought that the Woolworth Building, which set a record in 1913, was a mistake on the part of the skyscraper curse, but when I went back and looked at the real details in the statistics, what had happened was that right after that skyscraper record was set, the U.S. went into its worst decline ever. The worst quarterly decline for over half a century of statistics. What got us out of it was of course the beginning of World War I, when Europe was buying raw materials and products and weapons from the United States. So World War I got us out of it.

Not only are record skyscrapers associated with economic crisis, but they are also associated with other bad things like the founding of the Fed, going off the gold standard, World War I, and so on, and the Great Depression. So this is an important indicator. It's not just a fluke. And Austrian business cycle theory tells why that's the case.

**WOODS:** Exactly. That's where I want to come in here. This would be an interesting enough story if it were just a series of oddball coincidences, but what makes your work so interesting is that you actually try to explain why it makes sense that when we see these over-the-top buildings being built, we should expect a tipping point from boom into bust. So unpack for us exactly what is happening here. Make sense of this data so it's not just a series of coincidences but actually makes sense.

**THORNTON:** It fits into the Austrian theory of the business cycle perfectly well. What happens leading up to the building of the world-record skyscraper is that you have a period of prosperity and you have a period where the central bank is keeping interest rates very low, causing speculation in the economy. So you've got a boom economy going, and everybody in real estate knows that when you have low interest rates, you increase the value of land, particularly land in metropolitan areas. And so the price of land goes up. As a consequence, builders and entrepreneurs want to build a taller structure on that valuable piece of land, so the rules of real estate are that when interest rates go down, the price of land goes up but the price of building is actually low. You can borrow lots of money at very low interest rates. So those are two factors that encourage the building of high structures in the economy.

It goes beyond that. It goes beyond the price of land. It goes beyond the price of capital, which of course is very important. It's all geared up with a very speculative economy where people are building bigger structures. They're building longer-term investments, and of course a skyscraper is a very long-term investment. And then we get inside that skyscraper and what we see are all sorts of new technology—because you can't use the same elevators in a ten-story building as you do in a 200-story building. So guess what? The elevator company has to come up with a brand-new product, a brand-new manufacturing center with all sorts of new technology, and that is of course what the Austrian theory of the business cycle is about. It's about longer, more roundabout means of production. All sorts of new technology that was sitting on the shelf now actually has to be constructed and used, and so every system within these record-setting skyscrapers has to change: plumbing, the electric, the elevators, the exhaust, the heating and cooling systems. All of that has to change, and so entrepreneurs are running around all over the

economy coming up with new things. They're doing more long-range planning and capital investments. So this record-setting skyscraper is just the picture of the Austrian theory of the business cycle.

**WOODS:** I knew you had written about skyscrapers, but I never read what the rationale was. It turns out that this is just a subset of the larger picture that Mises was painting 100 years ago in *The Theory of Money and Credit*.

**THORNTON:** That's right. And I just recently learned, Tom, and this is very interesting: because of all these record-setting skyscrapers, they've come up with a brand-new way of heating and cooling rooms and floors, particularly in skyscrapers. Traditionally, what construction companies have done is to use duct work to force hot air and cold air through the building in order to heat and cool it. But every square foot of that duct work takes up space in the building. It takes up space on every single floor. So what they've come up with is, instead of using air, they pump the freon directly into the rooms, directly onto the floors, so that the heating and cooling come in a liquid form, which is very concentrated, and can carry a lot of heat or a lot of cool with it. It's not only the outside unit that's providing the cooling and heating, but actually one side of the building can actually share heating and cooling with the other side of the building. Instead of having these massive ducts going throughout the entire building, now you have these teeny-weenie little pipes where liquid heat and liquid cold are pumped. So it's an ingenious way, and that was all brought about, helped, by the record-setting skyscrapers.

**WOODS:** Now, let's say something about the economy right now, though, because it seems as if something really has gone wrong for quite some time, and no matter what they try to do to fix it, it doesn't seem to be repaired. Every little blip in the employment figures is trumpeted as the beginning of something wonderful, but we all know that the labor force participation rate keeps hitting these record lows, and that's undermining their story about employment. What do you think is actually happening in the big picture of the economy?

**THORNTON:** Tom, I'm very worried. You know that the Shard building was completed a couple of years ago in Europe as the record-setting skyscraper in Europe, and then Europe fell apart. More recently, China has completed its tallest structure and its economy is coming undone. We just recently got a new national skyscraper, although it's kind of phony because it's not actually all occupied space, and in China there's a company that's trying to build record-setting skyscraper. So this does not look good. And if the skyscraper is any indicator of the future, then things may actually get much worse than much better as being portrayed by economists within the government and the administration. They're using what essentially amounts to phony statistics. The statistics, as you indicated with the unemployment rate, are very much phony because it's only coming down because people are being taken off the workforce. They're being deleted from the workforce because they haven't been able to get a job in so long. If the skyscraper is any indicator, we could face some severe trouble down the road.

**WOODS:** I think even some people who are sympathetic to the free market are losing patience. They're saying, "Okay, I understand that government can hold back recovery, but what exactly is the government doing that could be holding back recovery for this long? Isn't the market resilient enough to get through

a few new programs coming out of Washington, D.C.? Why should it be so stagnant?”

**THORNTON:** Well, it's more than a few programs, Tom. As you probably know, of course, Obamacare is coming online, so the whole health-care sector is in disarray. The Dodd-Frank law is being implemented in the financial sector and the banking sector. They're all in complete disarray. A lot of bankers don't even know their jobs anymore because the regulations are so unclear as to what they can and cannot do, and if they make the wrong type of loans, they may end up being personally penalized down the road. And then you've got the national deficit, the national debt. Who's going to pay for that? How are they going to pay for that? Are they going to borrow money? Are they going to inflate or are they going to raise taxes? So if you look across the broad spectrum of what the government is doing, it's got this public finance problem that's enormous. It's got this regulatory problem, which is enormous, and it's got Obamacare, which is also enormous. Entrepreneurs are not willing to invest under these conditions. So the central bank is left holding the bag, and they have these ultra-low interest rates. They're buying up government debt directly. They're in charge of the entire mortgage industry practically.

So this is not a very good scenario. This is not a scenario where the U.S. economy has gotten more free market. It's a scenario in which the economy has been taken over by the government. A huge, important part of the economy, namely mortgages and banking, health care, you go across the board, and government is getting bigger everywhere and the deficits have been adding up. We've got this huge government debt, and so the uncertainty is enormous. Of course, their efforts to bail out the economy have only made it more difficult to clear away the bad investments of the past, to clear the housing market back to equilibrium and get people into lower-priced homes. They're preventing all this. They've gone down the same road that Herbert Hoover and FDR did by trying to prevent the correction in the economy, to prevent the crisis from cleaning out. They've actually done a disservice to us in the sense that they've made the recovery over a much longer period of time, a much greater level of pain. They've only added to our problems, because now we have a fiscal problem that is enormous and looks like it's getting worse. As soon as they signed that agreement a couple of weeks ago, the national debt went up by \$375 billion. They were playing phony accounting tricks to the tune of almost \$400 billion, and in an environment like that, where the government is spying on everybody, it's just not the type of environment entrepreneurs want to invest in. Private capital, and hire labor, make products, and employ people. That's just not the environment they created. They created just the opposite.

**WOODS:** Mark, we have a few minutes left. Tell us about the work you've done on price inflation under the current circumstances. I think it's hard for a lot of people to understand how so much money can be created and yet price inflation is moderate. It seems we have nothing to fear about rising prices under the current circumstances, but you've said something like the opposite.

**THORNTON:** Yes, Tom. You know the government measures inflation with the Consumer Price Index (CPI) with the normal consumption goods that everybody buys on a weekly basis. We've got a lot of unemployed people. We've got a lot of people on food stamps. There's the wealthy doing incredibly well, but most of the rest of us are not doing so well, so we're not spending a lot of money on those consumer goods. If we look around at the broader economy we see tremendously high prices. We see an all-time

high in the stock market and stock prices. Google is over a thousand dollars a share. We see all-time high prices in the bond markets, whether it's U.S. government bonds at all-time highs or even junk bonds at all-time highs, and so the bond market is in a bubble as well and the prices are very, very high. If you look at the real-estate market, prices are up across the country. All-time record prices in Manhattan, up over 25 percent, the same in the states of Florida, Arizona, California and Nevada, so housing prices have been lifted again as well. Agricultural land in the Midwest is at all-time record highs. The auction market for contemporary art in Manhattan, all-time record highs. All of the auctions are setting new records despite an increase in supply.

So if you look closely at the economy and you take seriously the Austrian understanding of inflation, you understand that eventually monetary inflation causes price inflation—but we don't know how much, we don't know when and we don't know in what markets. It all depends on who has the money. And so those prices are rising when the people have money and prices are not rising when people don't have money. That's the average Joe whose income has been reduced or is unemployed or on food stamps, so it's not surprising to me at all that what we see is the CPI just ticking up a little bit. But all-time records in all the markets where the wealthy people play and the prices are extremely high. Apartments in Manhattan in some of the better neighborhoods are now selling for close to \$100 million each, and that's just for the normal condominiums, not for one of these specialized condominiums by designers. That's just a brand-new condominium close to Wall Street and close to Central Park. A hundred million bucks. So those prices are rising out there. We can see them, it's just that the government measure, that CPI index, is being held down by the fact that the American public is not doing well at all. They're not getting this free money from the Federal Reserve. They're not getting near-zero interest rates. They're not getting loans at all. All that money is going to hedge funds. It's buying up government bonds and things like that, and so it makes perfect sense from the Austrian point of view.

**WOODS:** Now, Mark, I know you have to run but if I can take one more minute of your time: can you say something about where gold has been in recent weeks and what you think that means, or just any thoughts at all about gold?

**THORNTON:** Well, gold has come back down from close to \$1900 into the \$1300 range. It had been bouncing at the \$1500 range and then it looks as if someone or some group of people or some organization punctured the technical support at the \$1500 level with a massive selloff in the ETFs. The paper gold, there was a massive selloff and gold came down to \$1200, but normal, average people out there started buying up record amounts of gold, so someone triggered this fall by selling the paper gold product ETF. But if you go to places that sell gold and deal in gold and Internet websites that sell gold and silver you see all-time record businesses and you see a lot of categories of products that are out of stock. This is true around the world. If you go to China, Hong Kong, India, Turkey, everybody is buying gold. I think it's a temporary phenomenon and I think it's a phenomenon that has a much greater tendency to move upward from here rather than downward, although nothing is too surprising in the gold market, but they can rig things. They can increase margin percentages and things of that nature, which they've done in the past to try to break up the market in gold and silver, but ultimately I think that those kinds of tactics by the government—central banks selling gold to keep the price down to make them look

good—ultimately I think those policies, those efforts to trigger downward movements, will fail and fail badly in favor of gold.

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# The Revolution of 1913

## Guest: Tom DiLorenzo

### November 8

*Tom DiLorenzo is a professor of economics in the Sellinger School of Business at Loyola University, Maryland, and the author of numerous books, including The Real Lincoln and Hamilton's Curse.*

**WOODS:** As 2013 slips away, so do our opportunities to reflect on the centenary of three hideous institutions: the Federal Reserve system, the income tax, and the direct election of senators, all of which we date back to the momentous year 1913.

You gave a talk at the Mises Institute one year on what you called the Revolution of 1913, and I thought that would make a good topic. As here we are in November 2013, we can look back on a hundred years of glorious revolution and talk about what the consequences have been. So let's go one at a time.

I think the one that would be most obvious for people—for a lot of people it's not so obvious what the Federal Reserve does or why the direct election of senators really matters—but the income tax, more or less, everybody feels the pinch of that. So let's start there. Where did that come from? Why was there pressure to have an income tax? Weren't people happy being relatively lightly taxed?

**DILorenzo:** The first federal income tax was during the War to Prevent Southern independence, as I call it, during the Lincoln administration. Then that was ended in 1872. But I think it gave the statists sort of a taste of what could be. They kind of liked having this big, giant pot of money. Even though the war was over in 1865, still, for another six or seven years, they had all that income tax revenue to play with and to buy votes with.

Periodically, I think there were dozens of attempts to resurrect the income tax. We almost did get it during the Grover Cleveland years in the 1880s, but then we finally got it in 1913, the fateful year.

One of the important contributing factors was that the high protectionist tariffs that were the policy of the Republican Party from the Lincoln administration all the way up until 1913 really disproportionately harmed farmers more than anybody. Everybody had to pay higher prices for things that these tariff taxes are imposed on. But at the same time, what a tariff does, which is basically a sales tax on imports, is it impoverishes our trading partners.

So if people from England cannot sell things in America, then they do not have the dollars with which to buy things from Americans. And what were they buying from Americans? Mostly food, mostly agricultural products. So farmers are always hit twice by protectionism—once when they have to pay the same high prices for clothing and things that we all have to pay higher prices for, and again when their business dries up, their farm business overseas.

In the late nineteenth century, their overseas business in the southern states was about 60 to 70 percent of their whole business, and so the farm bloc, the farmers in this country, became an important voting bloc for income tax because they were promised, “We will take the pressure off you. We will reduce the tariff rate, if you, the farmers, organize support for an income tax.” Which they did. We were still very much more an agricultural economy than we are today, so there were a lot of votes and a lot of money involved in the farm vote.

Then, of course, they baited and switched them right after we got the income tax. The Fordney-McCumber Tariff came in, several years later, and increased the tariff rate back up from around 20 percent or 22 percent to I think it was 39 percent. Then by 1930, we had the Smoot-Hawley Tariff, which is almost 60 percent on average. So we ended up with extremely high income tax rates after World War I, and a high tariff rate again.

**WOODS:** Well, in a way, not that I would support any tax, but, I almost feel like saying they got what they deserved. In supporting the income tax, they weren’t supporting a tax that they themselves ever expected to be paying. They imagined that some other schmuck who was richer than they were was going to be fleeced, and they’d be off the hook. So, in a certain poetic justice kind of sense, they got what they deserved, but nobody deserves a tax, I suppose.

But what is it about the income tax that makes it any worse than any other kind of tax? Aren’t all taxes oppressive? Is there something uniquely bad about the income tax?

**DILORENZO:** Well, it punishes work, for one thing. It’s a tax on work effort and saving and investing, for one thing. And then also, the income tax, since it’s so pervasive on everybody who earns income, it gives the government so much money.

I have a whole chapter on the Revolution of 1913 in my book *Hamilton’s Curse*, and I quoted some of the Old Right authors who were writing at the time. Felix Morley, for example.

They made the point that, during the Lincoln administration, even though he had a sort of a primitive income tax, and they had conscription, the government still did not have enough money really to enforce conscription very well. But once they got the federal income tax in 1913, and the draft for World War I, well then you could enforce conscription. You had the means to hire thousands, or tens of thousands, of conscription police to go and hunt down people who might try to avoid it. That’s one of the insidious things about the income tax.

Also, it led to a tremendous centralization of power in Washington, D.C. The original constitution of America did not give any tax power to the federal government at all, income or anything else. The states raised all the tax money. The income tax did exactly the opposite. It was sort of one of the final nails in the coffin of limited, decentralized government in the Jeffersonian tradition, because it gave the government all that money. Combine that with the Fed, and that's how they financed the entry into World War I.

**WOODS:** So the consequences of the income tax, then, are not hard, I think, for the average person to get. But I think it is harder for people to understand why the Seventeenth Amendment, which involved the direct election of senators, should matter to us.

So first of all, how did senators used to be elected? And what difference does it make that they changed the manner of electing senators with the Seventeenth Amendment?

**DILORENZO:** Under the original Constitution, United States senators were appointed by state legislatures. The purpose of that was so that the people back home, whom they were supposed to represent, would have at least some sort of control over their behavior. The founders understood the danger of a senator going to the nation's capital, and then being influenced by lobbyists, rather than by the people back home. This is long before the word "lobbyist" even existed.

For example, when Andrew Jackson confronted the Bank of the United States—and he eventually defunded the Bank of the United States, which was a precursor of the Fed—there were seven senators, who were appointed by their legislatures, who went to Washington under the promise that they would support Andrew Jackson, and oppose the Bank of the United States. But then once they got to Washington, they were easily bribed and bought off by the Bank of the United States. They were all recalled by their legislators back home and fired. There was none of this waiting for five and half years until the next senatorial election, or anything like that. They were fired—forced to resign, is actually what happened. And that was the idea. That's why it was important to have senators appointed by the state legislatures.

It wasn't a perfect system, of course. All politics is corrupt. But when we adopted the Seventeenth Amendment in 1913, that led to the direct election of senators. That created the system we have now where they can go and raise money—the senator from Kansas can go to China and raise money from Chinese businessmen to finance his reelection campaign, or anywhere on the planet, for that matter. That's exactly what the Founding Fathers feared, and that's exactly what has happened.

**WOODS:** But let's take a concrete example, like your state of Maryland, where you live. Would it really make much of a difference if the legislators of Maryland chose the senators, as opposed to the voters in Maryland at large? I mean, wouldn't they be equally crummy?

**DILORENZO:** Equally crummy. Yeah. Well, Tom, I think the main argument that the Founders made was that it would be convenient for the legislators to simply fire a senator on the spot. "You reneged on your promise to support Andrew Jackson. You're out of here. We're going to send somebody else." Whereas, if you have to rely on direct elections, you know, we have the election laws. You have to wait

for five years for the next election, and in that time, the misbehaving senator could raise tons of money from all his lobbyist special-interest supporters to defeat the thing and keep his job. I don't know if the Founders ever made that particular argument, but I think that's the sort of thing they had in mind.

**WOODS:** Do you think the Seventeenth Amendment was introduced because the elites in the United States were deeply concerned that democracy was being thwarted under the old system?

**DILORENZO:** Yeah, that was the basic argument. The god of democracy needed to be supported. And there was a crusade that lasted for decades to do this. From my reading of the history, there were attempts to have direct election of senators for many decades prior to 1913. Of course, this was the Progressive Era. Under the Progressive Era, democracy became a god, with a small "g," and that sort of held the day, and that's how we got it.

**WOODS:** Well, the third of these ingredients is maybe the most important, because it's the least understood, and the least talked about, and that's the Federal Reserve System.

When I was in school, we didn't learn anything about the Federal Reserve System. It wasn't even mentioned. Of course, in an economics course, even in college, you'll learn about it, but only in a technical sense: Here's how it works. Here's what it does. Here's why we need it. Never a really dispassionate overview or analysis.

So when the Fed was created in 1913—here I am trying to find some evidence that our overlords are just looking out for what's good for us—is there any evidence that there was any attempt on the part of policymakers or bankers to try to foster the common good by giving us a stable currency that would be overseen by a central bank, and so on?

**DILORENZO:** No. You know that's another one of the curses of the Progressive Era, this idea that government regulation is in the public interest.

The founding generation, of course, would be horrified that this is sort of a widely accepted idea, that government acts in the public interest. We went from James Madison's warning that men are not angels—that's why we needed a constitution, because angels would never be in charge of government—to this idea that, "Yeah, men are angels, if they're in politics, and so they serve the public interests."

I guess if you repeat that enough in the schools and in the culture, you get a majority of the people to believe in that line, you can get away with all these things. But, you know, there's a long history of research in economics on what's called the capture theory of regulation, and it's an understanding that regulatory agencies that were created in the early twentieth century with very few—if any—exceptions, are all basically either lobbied for by big business interests in the first place, or, if they weren't lobbied for very much, they were eventually captured by big business and worked for big business. But somehow the Fed seems to have escaped that. Even the famous Chicago School of economics never seriously looked into that idea of the Fed being a special interest.

You know, I sponsored a lecture at my university a couple of nights ago by a man who has been in the banking business for forty years. He's the CEO of a major banking corporation in America, one of the top ten financial institutions, and he said of the Fed—somebody from the audience asked him, "Why do we have the Fed?"—and he said the Fed was created to bail out the New York banks. He said that's why the New York Fed is still, for some reason, the most important, most powerful of all the Fed banks, of all the divisions of the Fed.

Look at what happened after the great recession of 2007. The first thing they did was pour hundreds of billions of dollars back into the New York banks. And that's always been the story. They call the Fed the lender of last resort, but it's sort of the bailout Santa Claus of last resort for mostly the Wall Street New York banks.

Even when the Fed goes about its daily operations, open market purchases, it has established this really cozy relationship with mostly New York investment bankers like Goldman-Sachs, who market the government's bonds, and who make billions of dollars doing this. So that's sort of the racket. The New Yorkers, they get the money first, and when the Fed creates price inflation, by the time you and I see any of this expansion of the money supply, the prices we have to pay for everything have all gone up, and all we do is pay more for gas and clothing and groceries. The New York investment banking community—they are the ones who really profit the most from the whole thing.

Just like other examples in American history: the Civil Aeronautics Board was a cartel operation that benefitted the airline industry for fifty years; the Interstate Commerce Commission benefitted the trucking industry by enforcing a cartel for the trucking industry; and the Fed is a cartel enforcement mechanism for an element of the banking industry.

**WOODS:** Now, if that's the case, though, how does government itself benefit from this? Government doesn't usually just shower benefits on people. It wants something in return. What's it getting?

**DILORENZO:** It gets an expansion of the money supply. It's every politician's dream to have a legal counterfeiting operation that only he can operate. You and I can't do it. We can go to prison for it. But the politicians have a legal counterfeiting operation that they can use to buy votes. It's illegal, of course, to walk up to a voter on the street and say, "Here's fifty dollars. Vote for me tomorrow." Although that happens. But it is legal for people to say, "Here's a \$50,000-a-year job with the government. Vote for me and get all your relatives to vote for me, financed by the Fed, by the way." And so it's a way of offering the people something for nothing, and that really is the business of politics in a democracy, isn't it?

**WOODS:** But, again, I'll try to be the opposite of the cynic here just to play devil's advocate. Don't we need an institution like the Fed to give us—well, I'm trying to say this without laughing—to give us economic stability?

**DILORENZO:** Well, the answer's no. The monetary columnist George Selgin is an Austrian School economist who has a very good speech that's on the web on YouTube. He's given it on several occasions,

and he also has several academic journal articles. I think one of them is in *The Journal of Money and Banking*. And it's on a hundred years of failure of the Fed.

He looks in a very scholarly way at the promises that the supporters of the Fed make, that it produces price stability, economic stability in general, low numbers of unemployment. And he found that on every score, the opposite is true. After the Fed we had worse business cycles.

On the price stability front, we do have some statistics on prices that go back several hundred years. There's a publication called Historical Statistics of the United States that economic researchers use, and it shows that the price levels, the CPI if you will, was basically the same in 1913 as it was in 1789, the year the Constitution was ratified. But since then, since 1913, it's gone up by more than twenty times, so it's really sort of a ridiculous joke to talk about the Fed as conducive to price stability.

And even Professor Christina Romer from UC Berkley, who was an Obama administration economist—one of the things she is known for, her academic research, is showing that the Fed actually made business cycles more unstable, compared to the monetary system that existed from the end of the Civil War until we got the Fed.

**WOODS:** So, we put together the Sixteenth Amendment, the Seventeenth Amendment, and the Federal Reserve, and the result is much more centralized government with far greater powers. Well, is there any scenario that you can envision that involves the reversal of any of this?

**DILORENZO:** Well, you know the Fed and the income tax give the federal government so much power with so much money, and the Seventeenth Amendment is just one of the many tools Congress uses to make it almost impossible to unseat an incumbent. That and gerrymandering are the main reasons why we have this situation. For the past 50 years, the average reelection rate is 80 and 90 percent at minimum in the Senate, and even higher in the House of Representatives. And so, that's not likely to happen, which is why for many years I've been saying the only real hope is secession.

The only real hope is peaceful secession, which is the way in which the Soviet republics escaped the clutches of the Soviet Union. And if that could never happen in the United States, then I really don't see any way out of it, apart from an utter collapse of the dollar, and of the economy, and then fundamental change in the chaos of all that. But peaceful secession would be a much preferred scenario, in my view.

**WOODS:** Tom, before I let you go, I want to jump back for just one second into the income tax, and ask you: if you could get rid of the income tax and replace it with a national sales tax, do you think there are any advantages to that? Is it less oppressive? Is it less economically damaging? Or is this just like rearranging deck chairs on the Titanic?

**DILORENZO:** No, it's rearranging deck chairs on the deck of the Titanic. A so-called national sales tax ends up being a tax on income also, and so there's really very, very little difference.



You know, when Ron Paul was running for president the first time he said this a lot. The second time I didn't hear him say it as much. But he said he was in favor of eliminating the income tax and replacing it with nothing. And if you did that, the amount of money the government would have would be about what it had in 1997. Which is true. I remember looking up the statistics myself, and that was exactly correct.

Of course, government was already grossly bloated, and the big majority of what it was doing was grossly unconstitutional in 1997. That would be the preferred scenario. Get rid of the income tax and replace it with nothing, because this idea of revenue neutrality—whenever a politician in Washington mentions tax reform, they always bring up this word “revenue neutrality,” so that if you or I lose our job, or we get a pay cut, we do it, we just bite the bullet, and we do that. But not under any circumstances, never should government ever take in a penny less, is the idea of the Washington establishment. If people believe in that, then we really are doomed, because every dollar the government spends impoverishes us by a dollar.

**WOODS:** Well, Tom DiLorenzo, again I'm grateful for your time, but even more so for your books, which have had a great influence on me and on many Americans. There are so many kids who have read *The Real Lincoln* and more need to read books like *Hamilton's Curse*, which basically tells the whole history of the U.S., except with the so-called heroes as the villains, and vice versa. That's my kind of history. Thanks so much again, Tom, for being here today.

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# What's Up With Iran?

## Guest: Daniel McAdams

### November 11

*Daniel McAdams is executive director of the Ron Paul Institute for Peace and Prosperity, and served for many years as foreign affairs, civil liberties, and defense policy adviser to Congressman Ron Paul.*

**WOODS:** Let's first talk about Iran, because there we've seen what seems to be a favorable development. There seems to be some progress being made in terms of talks, yet no progress is ever enough to get US congressmen and senators to stop pushing for sanctions all the same. Can you fill us in on what went on last week in Geneva?

**McADAMS:** Sure. Last Thursday the P5+1 talks took place, the next round of them took place in Geneva and according to Iran's chief negotiator, they made some serious progress. Iran came initially to the first round with a pretty comprehensive package proposal as to what it would take to improve relations. It included the possibility of ratifying the additional protocols, that's what they call them, which is an additional set of protocols to the Nuclear Non-Proliferation Treaty that would allow for much more invasive inspections and those sorts of things, much deeper inspections of the Iranian nuclear sites. Also, they offered to make sure to not enrich over 20 percent purity and to have much more transparency and that sort of thing. In return for this they were requesting some relief from sanctions. The reports last week were that the talks were successful thus far and it's a good first step. But as you pointed out, Tom, the very same day, last Thursday, that this was announced, the Senate announced that it was going ahead and going to mark out a brand new sanctions bill against Iraq anyway—

**WOODS:** Against Iran.

**McADAMS:** —I'm sorry. Iran. Out of deference to the President's negotiating they said they would wait until the talks were over, but this is through the Senate Banking Committee and Senator Ken Johnson, and just to show you that this is a bipartisan thing—he's a Democrat obviously, the Senate is controlled by the Democrats—he and Senate Majority Leader Harry Reid agreed to go ahead with the new sanctions. This really will tie the President's hand if the President's truly sincere about this, and I think there is no reason to doubt that he is sincere, to move ahead and try to find a peaceful solution to this 30-odd-year crisis with Iran. I think the President has incredible roadblocks ahead of him, including, to be honest, his own chief negotiator, who has misrepresented not only the U.S. position, but also

international law. I'm talking about Wendy Sherman, Secretary of State for Political Affairs. We had an article on our site this past week, Tom, from Hillary and Flynt Leverett, who are two experts on Iranian analysis and they're also on the board of the Ron Paul Institute. We're lucky to have them. They pointed out that she went before Congress and told a blatant lie: that Article 4 of the Nuclear Non-Proliferation Treaty says nothing about the right of signatory nations to enrich. All it takes is someone to simply go to the NNPT and read Article 4, which says, "Nothing in this Treaty shall be interpreted as affecting the inalienable right of all the parties to the Treaty to develop research, production and use of nuclear energy for peaceful purposes without discrimination." So his own negotiators are putting forth this lie, so it really is wrong-footing if the President is sincere, it really is wrong-footing his effort. So really this is one of the more exciting, I'd have to say, international negotiations we've seen in years, and it kind of puts you on the edge of your seat.

**WOODS:** I think we hardly know what to make of it because we never see negotiation. We really don't. Usually we have some belligerent U.S. demand, and each time it's met, the demand grows more unreasonable and more belligerent until it can't possibly be met and then invasion comes. It's the usual pattern. I don't remember seeing anything quite like this.

Now let me play devil's advocate. Let me try to get into the mind of a sincere neoconservative. I'm not talking about somebody who just wants to make money for the military-industrial complex or something. I'm talking about the average person who reads neocon newspaper columns. That person may say, "You can enter negotiations in good faith with a lot of different types of people, but the Iranians are just too radical. Plus, they are sincere Muslims, and Islam is a violent religion that teaches you can lie to your enemies and you can deceive them if it benefits you. So that is of course what they're going to do to us and we're going to be naïve, left-wing progressives who go along with the Iranians and before you know it, they're going to wipe us all out with their secretly developed weapons." I think that's what the typical neocon thinks.

**McADAMS:** Sure, and you're absolutely right. Unfortunately, that is the dominant position that the media takes. You're viewed as a weakling if you don't believe it, but with any crime you need to see evidence. I hate to say this, and actually I'll probably sound like a progressive, which I'm not really, but a lot of it does go back to racial stereotypes, racial prejudice, religious discrimination and—going back to Wendy Sherman, I hate to pick on the lady, but here's what she said about the Iranians last month: "We know that deception is part of their DNA." Can you imagine saying that about any other ethnic group or religious group? You'd be drummed out of your position. You'd be drummed out of society. So they can get away with these things. The truth is the Islamic Republic of Iran does hold social values that most of us find unusual and we probably wouldn't want to subscribe to them. However, that's the way the world is, isn't it, Tom?

**WOODS:** Well, I happen to think, Daniel, that it would be fantastic. I would be cheering if somebody anywhere in the world said of the American ruling class that deception is part of their DNA. Because that's the only way I can account for it. Even if I ask Barack Obama what his favorite color is, I think he'd lie to me even though he stands to gain nothing from that lie. They can't help themselves.

**McADAMS:** Absolutely, but the ruling class is really different from talking about a race of people. It's a little bit ugly if you ask me. I don't like that sort of generalization. I think it is very ugly.

**WOODS:** I think anybody in the world who said what I'm proposing ought to be said to our ruling class would actually single out, they would exempt the American public. The American people are probably more or less decent and even the ones who are belligerent, half the time they're really just uninformed—and I don't mean they're not culpably uninformed, they really need to know more than they do—but most of them are just reading the newspaper and they don't realize because they're busy people, you can't trust the newspapers in the U.S. I wish more people understood that, but they really don't. It's interesting here, and it warms my heart to hear that you are following what's going on with the Iranian situation with great interest and sympathy, and it sounds like maybe something good could conceivably come from it.

Meanwhile, we have in the U.S. people who just can't take yes for an answer. Is there any conceivable type of offer the Iranians could make that would so corner the American neocons that it would be impossible for them to continue in belligerence?

**McADAMS:** Well, the only thing that the neocons here would accept would be a complete cessation of enrichment of uranium, and that is such an affront to Iranian sovereignty. Iran in a way played the high road. They signed the NPT. We know, for example, that Israel is a nuclear power. They refused to sign the NPT, so Iran is sort of playing by international rules. It signed it and this is what most Americans don't understand: Iran has never been found in violation of the Nonproliferation Treaty. It's never been found in violation. They signed it, they're playing by the rules, and the other side of those rules requires you to have the ability to enrich uranium for peaceful purposes. After years and years of inspections, no one has ever proven that they have diverted this material for weapons purposes. You talk about transparency and maybe they have not had enough transparency. But what about the transparency—if you want to look at it from another perspective, look at the transparency of the U.S. military establishment. The U.S. government over the past ten or fifteen years, how many aggressive wars have they entered into? Would they open themselves up to this kind of inspection to have people look into their intentions and their capabilities and, if you remember, Tom, this is exactly what happened in the run-up to Iraq. The inspectors were in there, they were finding nothing, and that still wasn't good enough to prevent an attack. A long answer to your short question: short of giving up their sovereignty, which they're not about to do, nor would any country with its head on straight give up their sovereignty. Short of that, there is nothing they can do to satisfy the neocons. Just like short of Saddam Hussein leaving within the 48 hours, I guess is what was said, that's the only way he could have avoided it. I'll also mention Yugoslavia, if you go back a few years ago, he had to allow his country to be completely occupied by NATO troops or they'd bomb. So they give you an offer there is no way you can accept or we'll bomb, and thankfully we haven't gotten to the "or we'll bomb" part, but the senators and congressmen are certainly pushing in that direction.

**WOODS:** Now, I know, Daniel, that people like you and me and Ron Paul often say there's no real difference between the parties, there's no real difference between the presidential candidates. And there's

a lot of truth to that. But they do vary in style, they do vary in emphasis and I wonder—given the fact that the administration more or less gave up on bombing Syria, where you know John McCain would have bombed Syria. The less evidence there was, the more he would have wanted to bomb Syria. Obama has had all the opportunity in the world to bomb Iran if he really wanted to do it. It's true he's used the drones and he's been belligerent in his own way, but do you think that maybe it could be the case that his heart is just not in this, that he genuinely doesn't want to be involved in a war?

**McADAMS:** It's kind of a Kremlinology or something to try to decipher what's in his heart, but I've thought that myself many times and I've entertained the fantasy that it is these horrible, I hate to say it, these horrible, extraordinarily aggressive women in his Cabinet who are pushing him toward this—and maybe I should include Kerry in that to make it both genders. But you have Susan Rice, you have Samantha Power, and you're right. There are some subtle differences between parties and people like Rice and Power will push bombing for humanitarian reasons—which really if you had to choose, I find that almost more disgusting than someone like McCain who just acknowledges, “Look, I just want to take everyone out.” It almost seems more vulgar to put a humanitarian gloss over something so horrible and destructive as bombing a country.

**WOODS:** Okay, let's shift gears now. I want to talk about what's been going on in Syria because I think it kind of dropped off people's radar once it became clear that it was unlikely that any bombing would take place in the U.S., so now there's no interest in it. Now, apparently, our friends the Saudi Arabians are funding fighters to overthrow Assad, just as the US government wanted to. I don't think the Saudis are interested in funding the installation of liberals in Syria, so what really is going on here?

**McADAMS:** Well, if you had another round you know the Saudis have already spent hundreds of millions of dollars bankrolling the rebels in Syria, and I would never call them Syrian rebels because certainly the majority of them are not Syrian. They're foreign jihadists who have gone into Syria. They've come from Yemen. They've come from Saudi Arabia. They've come from Germany and the U.K. and they've come from America to a degree. These are foreign fighters who view this as their next jihad to overthrow a secular leader. The Saudis have no military despite spending billions and billions to keep the American military-industrial complex happy, so all they can do is write the checks. So they're writing yet another round of checks to send an army of several thousand, say 4000 all the way up to 50,000 people, to go into Syria and again to overthrow the government, which we have no affection for other than the fact that it is a sovereign government that is being overthrown from without.

But if we rewind the tape a little bit, this is also something no one ever talks about. This whole Syria thing was supposedly the next chapter in the Arab Spring. Democratic feeling was in the streets and the Syrians themselves were rising up to demand more freedom against the dictator. That narrative has been lost in several other subnarratives because it's become embarrassing since these aren't Syrians rising up. These are international jihadists going in to overthrow a secular government in favor of something that would be anathema to those who are being forced to pay for it, say, here in the U.S. We sort of tossed that narrative aside that this is a popular uprising and now it's simply, “We've got to overthrow this guy no matter what.” It's disturbing that the Saudis are funding it and last Wednesday, I believe it was,

these wonderful Syrian rebels, not Syrian rebels, but international insurgents, bombed the embassy of the Vatican in Damascus and yet this is just one in a string of embassies that they are bombing. They bombed the Russian embassy. They bombed the Chinese embassy. They bombed the Iraqi embassy. Every government that is not getting behind their fight against Assad, somehow finds a mortar lobbed in its neighborhood. I think that says a lot about what kind of people we're dealing with.

**WOODS:** I want to switch gears yet again. I just read your write-up on the speech that Congressman Walter Jones gave about a week and a half ago. Now Congressman Jones, for those of you who don't know, is a congressman from North Carolina. This is the guy who came up with the term "freedom fries," he was very gung-ho about the Iraq War, and then, even though it practically guaranteed him nothing but grief, changed his mind on the war. He changed his mind on war in general, practically, and now is a board member of the Ron Paul Institute. So he gave a speech in which he basically called for ending U.S. military action in and ending the flow of U.S. tax money to Afghanistan. What types of arguments is he putting forth? He comes from a district that is very, very heavily military. He has to bear that in mind in how he phrases his argument. What's he saying? How's he making this appeal?

**McADAMS:** The other thing about Congressman Jones, who is just one of the real gems in Congress, is that he took a lot of heat from his fellow congressmen when he did decide to turn on Iraq. And the reason he did it was that he kept writing letters to families of soldiers that were killed, and it caused him to pause and think about the idiocy of the war. He dug further and further into it because he got angry, and he discovered that he had been lied to by Condi Rice and all the other criminals in the Bush administration, and it made him so angry. If you talk to him in person, he is so animated by this anger over having been lied to and realizing how many people were killed because of the vote of so many of them to go into Iraq, so in some ways it's sort of a Greek tragedy or something. He's trying to make up for a mistake he feels that he's made. I think the rest of us would say he's more than made up for it with all the speeches that he's done on the floor and how much he has made it [opposition to the war] okay for conservatives. He himself is a very conservative Christian, as you pointed out coming from a conservative district. I think his great achievement is he has made it okay for conservatives to question war. He and another member from the Ron Paul advisory board, Congressman John Duncan from Tennessee, two strong conservatives who have spoken out against the war as conservatives and as far as what Walter Jones said recently on the floor, very, very powerful. He said it's time for Congress to face the fact that we have our own problems in the U.S. Sending over \$600 billion to Afghanistan to build roads, schools and utility plants so the Taliban can blow them up makes no sense. He said it's also time for little girls like these two, and he was holding up a picture of two young girls, to have their daddy at home and not to have their daddy in a coffin. Very, very moving speech on his part. God bless him.

**WOODS:** I happen to love this type of populist rhetoric. He's basically saying that even though we have been taught to cheer for this stuff and not ask questions about it, the fact is we all suffered from it. It has hurt us. It has made it harder for us to solve our own problems. It hasn't done a whole heck of a lot of good for people overseas, either. It's hard to see who the winners really are here, but the losers are everybody who has mindlessly cheered on the war machine. And how refreshing that is. I think it would be fun if somebody like him or if Congressman Duncan had presidential aspirations because I'd love to



hear rip-roaring speeches from people like this and not mealy-mouthed stuff about how we can't afford this, maybe we have to rethink it, but people who are just going to call a spade a spade on this stuff.

**McADAMS:** Sure, and you know what he gets for it? He gets some creep neocon who's trying to challenge him now in the Republican primary next time. The Republican Party has had him in their sights for a long time. I don't think there's anyone who can challenge him, but you never know. They can put a lot into it. So it shows where they are. The Republican Party has no intention of changing their views on the warfare machine.

**WOODS:** So tell me what the Ron Paul Institute is up to these days? What sorts of stories are you guys tracking?

**McADAMS:** What we try to do is we try to take a look at the news. We try to look at things, myself and some colleagues who work with me have a combined total of 2+ decades working for Ron Paul, so we try to look at things through his eyes and collaborate with him on a regular basis. He's very much a part of it. He's our founder and chairman and we want to present the news and the events of the day from a deep-rooted analytical perspective. We want to not be your standard think-tank where you have a bunch of PhDs sitting in a room talking to each other. Like you do, Tom: you have an amazing ability to explain very complex things in very simple, readable ways. I'll always remember you did a piece in the *American Conservative* a while ago explaining the whole concept of nullification. I'm not an expert in these things. I remember reading it thinking, "I finally get it."

So that's our intention. We want to speak to people who are uncomfortable with what they're hearing in the media and we want to show them that there are alternatives, that there are people like the Leveretts out there who are very responsible professors, intellectuals who are nevertheless challenging the predominant paradigms. We also, to be honest, want to have a little fun, too, so we do poke fun at people like McCain and Graham and we have a regular column called Neocon Watch where we keep our eyes on the stuff you guys are writing and putting it back in their face. It's a little cheeky, too. We don't want to be somber and serious and we also want to tell some good news stories. We're not just doing foreign policy. We're also doing civil liberties quite a bit, and so we're covering things like food freedom and farm freedom, and there's some good news there. We're covering the drug war and we're doing quite a bit. And we've been building up the website and next thing we're going to be starting some programs. We've had about six months to get the website running. We've got an amazing response from readers and we're so happy we've built up the readership. Our next move is to start with some projects we have in mind, including a summer school next summer for university students in a kind of modified internship program. We've got plenty of stuff on the horizon.

**WOODS:** Are you guys a 501c3?

**McADAMS:** Yes, as a matter of fact we are a project of Congressman Paul's 501c3 called the FREE Foundation, which he founded in the '70s, so we are completely, entirely under Dr. Paul's legal umbrella. We are definitely part of his personal 501c3.

**WOODS:** Especially as we get to the end of the year and people are wondering about gifts they can give and you're looking for a 501c3, I can hardly think of one that is more worthy than the Ron Paul Institute because of what you have done and what you have the potential to do. I had Congressman Paul on this program a couple of weeks ago and I asked him, "Has there ever been a noninterventionist organization in American history as far as you know?" And he couldn't think of one. You really are treading on virgin ground here. It's tremendous what you guys are doing and I'm going to continue to pick your brain on a regular basis once or twice a month to keep an eye on what they're doing overseas.

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# Murphy Takes on MMT

## Guest: Robert P. Murphy

### November 13

*Bob Murphy holds a Ph.D. in economics from New York University. He is the author of Chaos Theory, The Politically Incorrect Guide to Capitalism, The Politically Incorrect Guide to the Great Depression and the New Deal, and Lessons for the Young Economist. He blogs at [consultingbyrpm.com/blog](http://consultingbyrpm.com/blog).*

**WOODS:** You're going to be the guy who does two things for us today. First, explain to us what Modern Monetary Theory is, and then let's talk about what the shortcomings are. How should somebody answer when this comes up?

But first of all, this seems to me like a relatively new school of thought. I'm not an economist, so maybe this has been percolating for a long time, but I don't remember anybody using the term Modern Monetary Theory ten years ago. Where did this come from, and who are the people associated with it?

**MURPHY:** I don't know exactly when the term Modern Monetary Theory was coined. The ideas in it, I think, would be considered part of the same worldview held by Oskar Lange, for example, the same person who was part of the socialist calculation debate. They refer sarcastically to me as being a credit to the socialists raising the issue, and then Lange, of course, solved it with the market socialist solution. A lot of the ideas associated with what we now call MMT actually go back to Oskar Lange, so these ideas have been around.

Nowadays, I think one of the leading gurus of the movement is this guy called Warren Mosler, and he's the guy that I debated at Columbia University over the summer. Incidentally, Tom, this guy is extremely charming, so just be careful if you ever cross paths with him. He might convince you with his natural witticisms, and before you know it, you'll be advocating inflation.

**WOODS:** Bob, if only people would say that of me someday. "If you just meet Woods, he may just, through his sheer charm, win you over."

**MURPHY:** You have to work on that, then.

**WOODS:** [Laughter] All right, go on.

**MURPHY:** He was telling me that he actually thinks of the phrase “Modern Monetary Theory” as a complete misnomer. He said that, first of all, it’s not modern if these ideas have been around. He also said it’s not really monetary, and unfortunately, I can’t remember what his problem was with that term, whether he meant that it’s also fiscal policy. I think that might have been what it was, but I honestly can’t remember. There’s some reason he was saying that even the term “monetary” is not quite right. Then he said it’s not really a theory, that it’s, if anything, a theorem. He was saying that he thinks the whole phrase is kind of silly. I don’t think he said the word “silly”; he was saying it’s a misnomer.

To answer your question, nowadays I think Mosler is the guy associated with it. One thing I should be clear about is, it’s not the same thing as Keynesianism as the way Paul Krugman and Brad Long and guys like that advocate. MMT, in some respects, from an Austrian perspective, might appear to be, “That’s just what those crazy Keynesians are saying,” but actually, if you’re going to put it on a spectrum, I think Modern Monetary Theory is more extreme, and in fact, even Krugman once in a while will occasionally point out that he differs from the MMT guys, that they only match up with the recommendations during what Krugman calls a “liquidity trap.”

**WOODS:** Let’s go back to the beginning here, and set the stage this way. Often you hear these MMT people say, “Even though it may seem superficially plausible, it is illegitimate to compare your household budget with a government budget, and say that the rules that constrain me in my household budget also constrain the government.” Am I wrong to think that, in talking about that comparison between a household budget and the government budget, we’re hitting the real heart of what MMT is all about?

**MURPHY:** I think you’re exactly right. Another big guy, by the way, is James Galbraith, if people know who that is.

**WOODS:** I didn’t know he was an MMT guy.

**MURPHY:** I believe he is. With all this stuff, too, you get into different sects, just like who’s an Austrian economist, you and I might quibble about certain people, but I think, relative to everyone else, Galbraith is definitely closer to that MMT camp than the other camps. But, the point they’ll make is, when anybody like a politician or other more conventional economists – certainly Austrians – will complain about or worry about, “Hey, the government is in the hole with all these liabilities with Social Security and Medicare and so forth. This is really going to cause disaster down the road. Americans need to wake up to these fiscal realities.” They’re saying things along those lines, or saying, “Hey, Social Security is broken,” that sort of language, their first response will be to roll their eyes and say, “You guys are thinking as if we’re on the gold standard still, and you don’t realize that in modern times, with modern monetary and banking systems – we see it in money in particular – that’s just not how it works anymore. It’s not true that governments have a budget constraint the same way that an individual household does, because, from the government’s perspective, when they have to pay a bill, they just effectively credit the bank account of the individual in question or the creditor in question. So there’s no issue about them being able to meet all their financial obligations, because they can just issue more money. This is the tie-in with the title or the description of Modern Monetary Theory. They’re trying to distinguish it from

the system that ruled under the classical Gold Standard, when it really did make sense, they said, for government to worry about being able to pay their bills.

**WOODS:** So they're saying, then, that governments are not subject to the type of constraints that you and I are, because you and I can't just create money to pay our bills? Is that really what they're saying?

**MURPHY:** Yeah. I think you just hit it on the head. They're saying an individual is using currency issued by some other entity, whereas, if we're referring to sovereign governments that have fiat currencies that they themselves issue, then they face no such constraints. That's why they might contrast it and say the U.S. government is in a different position from, say, the government of Spain, because they're part of the euro system, so the Spanish government can't unilaterally just issue more euros, whereas they're claiming the U.S. government can unilaterally create more dollars. You do get into an issue of, "They must be including the Federal Reserve and the federal government as part of the same entity." In case your listeners are confused about that step, that is the way the MMTers typically talk.

**WOODS:** Let's unpack this, then. Would they admit that there could be some drawbacks to money creation? In other words, surely, they would say that, if the federal government or the Federal Reserve created – just think of some astronomical amount of money – and that they injected it right into the economy and it was being spent, that this would have negative consequences, but they would say that's a separate issue. The point is, there's no constraint in terms of the government budget. Yes, there could be some unfortunate side effects of inflation, but that's a different issue? How do they handle the issue of inflation?

**MURPHY:** You, again, are correctly describing it. The more careful MMTers – people like Mosler and others, actual economists – the way they will phrase it is to say, "Don't get us wrong – if the government creates too much money, then yes, you'll see prices rise" (they'd call that "inflation" of course) "at a rate that is undesirable, and so that might be a drawback to the policies. We're not saying that there's no longer economic scarcity." What they're saying is that the entire debate, as it typically unfolds, consists of people worrying about the government having the ability to say – for example, if someone proposes the government spends money on some new program, MMTers do not want someone to object and say, "Well, how are we going to pay for that?" They think that's a silly question that's no longer relevant, because of course the government can pay for that. It can just create money and pay for it that way. They'll say that the only issue is whether this will cause too much inflation or more inflation than we desire. As I said, if they're careful, and especially if you press them on it, they will concede, "Right. If we create too much money, then we'll have more inflation than we want." But they still think that they're setting the issues up properly and giving us the proper framework within which to have a policy discussion by getting rid of this silly idea that the government can't afford certain things.

**WOODS:** What is your response to that? To me, this seems like a silly thing to want to emphasize. I suppose I could yield to them, in a very technical sense, yes, I understand that the federal government has a monopoly on money creation, and yes, it can create a lot of money, but I still feel like there are, at some level, constraints to building fifteen colonies on Mars. That would take trillions of dollars. I

suppose the U.S. government could print up the money for that. But how helpful is it to emphasize that aspect of the question when the more relevant aspect is: does the rest of society really want to see its resources transferred to this institution on that scale?

**MURPHY:** I again agree with you totally here, Tom. I think, at this point, my presence on your show is superfluous.

**WOODS:** I'm just groping my way through this stuff here, Bob! I'm glad I'm hitting a bullseye every time, but I assure you, I don't really know that much about this. I'm just going on what you're telling me, and just trying to see what I think a guy on the street would say in response.

**MURPHY:** What you just said a minute ago is exactly how I dealt with it. For your listeners, if you just go to YouTube and search *Robert Murphy Warren Mosler Debate Columbia U*, because it's Columbia University, I'm sure you'll see it, if you're curious to see the actual debate we had. He laid out his position. Actually, he didn't lay it out; he just went right into his policy recommendations and I tried to make sure everybody in the crowd and online knew what his position was, and the way I dealt with it was exactly as you just tried to do, and I said, "Yes, there is a sense in which everything he's laying out in his book" – and his book is called *Seven Deadly Innocent Frauds of Economic Policy*, if you want to look that up. I said, "Yes, there's a sense in which the points you're making – or at least many of them – are technically accurate, but to me, it seems like that's not really changing the fundamentals of the discussion."

I used an analogy. I said, "Suppose there's a couple and they're looking over their bills at the dinner table, and the wife is really stressed out, and she says, 'You know, honey, with the amount you're making from your job and all these bills that we owe and so forth, I just don't think we're making ends meet. I'm going to have to take a job and bring in some income as well, because I don't see how this is going to work.' Then, imagine if the guy said, 'No, no, dear. You're thinking in terms of the gold standard. You're thinking of this Ozzie and Harriet notion that there's a household budget constraint. We aren't constrained by the amount of income we bring in. I can just go put on a ski mask and start holding up 7-11s to get more money that way.' The wife says, 'What are you, crazy? You're going to get arrested and go to prison!' And he'll say, 'I'm not denying that there are drawbacks to my recommendation, but what I'm saying is, you're wrong to be focusing on how we need to boost our reportable income, but what I'm saying is, really, the only constraint on what we can buy is when the police are going to arrest me and how many 7-11s I can get away with knocking over.'"

Is what the husband said incorrect? Did he lie to her? Is what he said wrong in terms of accounting and the reality of the way the world is, in a world of being able to rob 7-11s and so forth? No. What he said technically is true, but does that really change the way the wife is thinking about it? Is that really a realistic thing to take into account, or is it pretty much fine for her to be saying, "If we want to keep spending like this, I'm going to have to take a second job. We're going to have to boost our income." That's kind of my reaction to the MMT people: if it is true to say that just regular tax revenues and possibly running budget deficits and borrowing, that the government can't possibly live up to the spending obligation it's



committed to, then you don't really change that reality by saying, "Wait a minute; there's a printing press right here. Make sure you guys don't leave that out of the equation!" That just means people are paying for it through higher prices and having dollar-denominated assets become worth less in real terms. The public is still paying for it. If they don't want to pay for it without use of the printing press, all it's going to do is possibly make them not realize how much they're being ripped off with the printing press, but it doesn't mean all of a sudden these programs are now more affordable.

**WOODS:** If the MMT people make these points about the government's unique ability to pay for things in ways that you and I can't pay for things, and about there not being a constraint on the government in the way there's a constraint on us, in order to set the stage for policy discussion, where do they take this? Where do they go with this insight? On a very technical level, we can concede this point to them, as you say. It's not strictly wrong; it's just that it begs every important question. Where do they then go with it?

**MURPHY:** You're right there. I should warn people that, unfortunately, my unbridled honesty gets me into trouble, because after I said that in the debate, not Mosler himself – Mosler is really a cool guy; it's just that I think his ideas are nutty – but a lot of the MMT people went to the airwaves and blogs and stuff, and said, "Oh my gosh, within the first eight minutes, Murphy just conceded the entire debate! He said that Mosler was right, end of story. Murphy just has personal qualms about liberty and printing money and 'counterfeiting,' as he calls it, blah, blah, blah, but he conceded that Warren is right." When you say that, yes, technically, you guys are correct in an age of fiat money, no government ever has to tell a creditor, "We lack the means to pay you our contractual obligation," then they're going to say that you conceded, but of course, as you're bringing up here, Tom, that doesn't really change the nature of the fact that, if governments are spending too much, then they're spending too much

And you're right: where they take it, invariably, is to say, "The government should be spending more." Mosler in particular had all sorts of recommendations, including that the federal government should pledge to give everyone a job who wants a job. Off the top of my head, I don't remember what the hourly wage rate was, because he's saying there's no reason for there to be involuntary unemployment at this point. The government can just pay everyone to do it. In his mind, that would just get people a chance to then find a better job in the private sector. He's not assuming that half of Americans are going to be on the dole indefinitely, but the point is, that's just one of several of his proposals that sound like it's an incredible potential transfer of resources from the private sector, into the hands of politicians and bureaucrats to be doled out to various people of their choosing. Yes, if they were just making the technical point then calling for massive spending cuts, that would be one thing, but what they do is, they look around and see that right now price inflation is very moderate. We have slack demand. There's excess capacity. The factories are idle. There are millions of people looking for work. So, clearly, the government could get away with creating a bunch more money that wouldn't lead to massive price increases, so there'd be no downside to it, and it's just this obsolete gold standard thinking that's preventing the politicians from having the wisdom to go ahead and put everyone back to work. You crazy Austrians and other goldbugs need to stop tying their hands, thinking, "We can't afford it," when clearly the problem right now is that we need more people to go to work. When they look at the economy right now, they see unemployed workers, so in their mind, the government could just spend money that it creates out of thin air and get

them back to work, and then real output increases. Clearly, that has to be a good outcome. We don't have to worry about making sure the accounts balance, because the government can always just create more money, so that's not the issue.

**WOODS:** Suppose we leave out of account the subject of price inflation. Let's say we concede that that's not a problem. From the Austrian standpoint, there are other problems that are associated with the idea that you just create money, and there's slack demand for reasons that are never explained. There are idle resources that are idle for reasons that are never explained. We'll just create money out of thin air and then, like a lubricant, it'll get the whole machine running again. An Austrian just doesn't think that way. Price inflation or not, that's another matter. An Austrian doesn't look at the economy this way, like it's a single entity, like it's an ignition that needs to be turned. Can you talk like an Austrian here in explaining exactly what's wrong with the way they're thinking about this?

**MURPHY:** Sure. From an Austrian perspective, we had a regular economy that was in a normal equilibrium, let's say, where things were running smoothly, and then the government were to come on the scene and create a bunch of new money and start buying things and giving money to the military and cranking out more tanks, and giving money to other construction companies to start building bridges and highways and what have you, and giving money to other people for food stamps or whatever it is, the point is, that would redirect resources from where they originally would have gone into now the channels that the government picks. Clearly, from an Austrian perspective, you'd say, "That can't be a good outcome, because there are many reasons for thinking that the private sector and voluntary transactions are the best way to allocate resources. Now a Keynesian would say, "Oh, yeah, okay. Sure. You're saying if there's already full employment, and then there's crowding out and there are tradeoffs. If the government wants to increase government output, then the private sector has to restrict itself. Fair enough." What if there's slack capacity? What if there's unemployment when this scenario unfolds? You're right, Tom – even there, the Austrians are going to say, "No, you have to ask why is there this involuntary unemployment in the first place. It's because of the fallout from a previous unsustainable boom. Because of a previous bout of inflation coming in through the credit markets that lowered interest rates below where they should have been that misled entrepreneurs – they started longer projects than there were real savings to finance, and at some point, you hit a wall physically. It's not just a matter of having enough dollars or whatever the monetary unit is, but there are physical constraints in the structure of production, in the capital structure. That leads to a situation where the authorities either have to back off or else the currency collapses. Either way, that unsustainable boom is unsustainable, and it will end, and that's what leads you to the depression – or "recession," in modern parlance. It takes time for those unemployed resources to get redirected back into useful niches, and if the government comes in while they're still idle and try to print up a bunch of money and get everybody back to work, it just short-circuits that recovery process.

**WOODS:** Let me jump in here, because we had G.P. Manish on a few weeks ago, and he was talking about Keynesianism, and he made a valuable distinction between what you might call physical idleness and economic idleness. It's true that some factory may be physically idle – it's not in use – or a hotel, maybe it closes for one season of the year and it's physically idle, but can you say it's economically idle?

Is there really no economic purpose served by withholding its services? Is the owner a complete idiot, or might he have some reason for doing what he's doing? What you're describing is a situation in which the owners of a lot of these resources are trying to figure out exactly where they fit into the structure of production right now in the wake of the bust. They need to rearrange things, and so they need to watch and see how they fit in, right?

**MURPHY:** Exactly. Even in normal times, even in a purely free market where there were no boom-bust cycles, at any given moment there'd be workers in between jobs. If a business goes out of business – that particular entrepreneur miscalculated what the demand would be, or he miscalculated what the costs would be, whatever – and so a commercial building that has a bunch of little stores in it, at any given moment, one of those units might be vacant, and they'd have a sign up that said, "Office space for rent" with the phone number. You have to ask, why don't they just rent it out immediately after the next day so that there's no discontinuity and output from these various things? It's because the owner, the landlord of that building, of course, wants to hold out to get a tenant in there to get a better price for it. If he just had to rent it out immediately, he'd have to drop the price pretty drastically. He leaves it vacant while people are searching. The same thing with workers – if you quit your job or get laid off, you don't just take the first job offer. If you're driving down the street and see that McDonald's is hiring and you previously were an engineer, you're not going to take that job right away, even though technically you could be working the next week. You hold out. You send your resume around and you look for a better spot. That sort of search process happens all the time. That's going to happen even in a normal free-market economy. It's just that, in the wake of massive government distortion with interest rates that screw everything up, when the entrepreneurs realize that, it takes them longer to adjust, and the best solution to that is for the government to stop interfering and let the market do its work.

**WOODS:** Bob, any parting thoughts on Modern Monetary Theory? Do you feel like we hit everything, or is there anything we left out in terms of a basic overview course?

**MURPHY:** I guess one thing I'd like to take on is one of the ways they try to show how silly the conventional approach is. They'll say they have this apparently wise statement that says the only way for the private sector to accumulate net financial assets is for the government to run a budget deficit. The way they're thinking about it – you can do it with various forms of accounting – is that if you divide the world up into the government sector and then the private sector, only if the government runs a deficit and owes the rest of the world money can the rest of the world then increase what it's owed. See how that works?

**WOODS:** Yeah.

**MURPHY:** So they think it's a very profound statement to show, "See? You guys are crazy if you want the government to run a balanced budget, or, even worse, to run a budget surplus. That necessarily decreases net financial assets held by the private sector. You're crazy!" There are various flaws with that, but one way to see it is to say, look, suppose the government comes up to me and gives me a \$1,000,000 IOU. I'm holding a Treasury bond, and Uncle Sam is going to give me \$1,000,000. I feel rich – I have \$1,000,000 more now, and my net financial assets have gone up. Now, next year, to pay that off, Uncle

Sam points a gun at me, takes \$1,000,000 from me at gunpoint, and then redeems that bond and gives me the \$1,000,000 and takes the treasury back, and says, “There you go! We just paid you.” Clearly, that process didn’t make me any richer. That’s what happens in the aggregate when the government runs a budget deficit with the rest of the world, and then we say, “The rest of the world now is richer.” How is the government going to redeem those bonds? Just by taxing the rest of us. It’s completely ludicrous when you think through the implications of what they’re saying, and yet they run around with these accounting tautologies that yes, technically are accurate mathematically, but how they deploy them in policy discussions is completely misleading.

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# David Friedman on Statelessness

## Guest: David Friedman

### November 14

*David Friedman is a professor of law at Santa Clara University and the author of **The Machinery of Freedom: Guide to a Radical Capitalism.***

**WOODS:** As I indicated to you, I would like to do a non-standard interview. Instead of the two of us chit-chatting about various things, which maybe we can do some time, what I would like to do—because I have found you to be an engaging public speaker, and you’re quick on your feet, and you can anticipate objections and reply to them very well—is to be like the average Joe on the street, who just happens to encounter you at a social engagement, and I want to see how the conversation would go. I want to see how you answer questions that I get sometimes, and I bet you can answer them more glibly than I could. So, in a way, I’m just trying to mooch off your brain here a little bit. Okay, are you ready?

**FRIEDMAN:** Yes.

**WOODS:** Okay, so here I am, Mr. Joe Blow.

I’m part of a tax reform association, and we’re trying to get tax rates lowered to 15 percent for everybody. We think that’s fair, and that’s the best kind of system, where everybody’s paying 15 percent to the government. What do you think, David Friedman?

**FRIEDMAN:** I think that’s better than what we have, and worse than ten percent. Ten percent is worse than five percent, and you can go on from there.

**WOODS:** I’m surprised to hear you say that. Go on from there—what exactly do you mean? You don’t mean that we could have a system with zero percent taxation?

**FRIEDMAN:** Yes, eventually. I think the things that government does now consist of a whole lot of things that we’d be better off not doing at all, and a few things that, over time, we can find private ways of replacing. I think the laws against marijuana make us worse off. Tariffs make us worse off. Most forms of government regulation make us worse off.

On the other hand, it is important that we have some way of protecting ourselves from crime and settling disputes, but those are things which I think, to some extent, are done privately and could be done entirely privately.

**WOODS:** All right. Well, let me try to take one of the easier issues for you to deal with, and then I'll deal with crime and all those other issues.

I just read in *Salon* the other day—and surely David Friedman isn't going to tell me that *Salon* is misleading me—that, in order to create prosperity, everybody knows we need a large bureaucratic structure guiding the economy. So we do need that.

**FRIEDMAN:** Actually, that experiment was done. As you may remember, the Soviet Union collapsed a few years ago. That was a system where they had a large bureaucratic structure that was trying to run the economy, and it didn't work very well.

A large society, even one a good deal smaller than this, is much too complicated for anybody to run from the center, and the only ways that work are decentralized systems in which I make decisions for me, and you make decisions for you, and we interact through the kind of voluntary arrangement you are part of every time you go into a grocery store or accept a job.

**WOODS:** Well, I can accept that, because as you say, there seems to be some sound empirical support you can draw on for that. But it seems to me a little worrisome that we would be proposing the possibility, even in theory, that we could live without an institution that has done a pretty good job of keeping us more or less safe and secure from internal and external aggressors.

**FRIEDMAN:** I think the internal aggressors are an easier problem, and that national defense, defending against foreign countries, is, I think, a hard problem for a society without a government, although not, I hope, an insoluble one.

Let me start with the easier problem first. The difference between the two is that protection against crime is something you can provide to individuals. You can say, "If you haven't paid your annual fee for having a cop come when you call, nobody will come when you call." Whereas, protection against foreign governments—it's very hard to stop only the missiles aimed at me and not the ones aimed at my neighbor. So that's a more difficult problem.

As far as crime prevention is concerned, I would imagine in the long run, a society where there were lots of private firms that sold the service of protecting people, that you would be a customer of one of those firms, and if you didn't like the product they provided, you'd switch to another firm.

Like the present police—saying police protect you is really a little bit misleading because, in practice, what prevents crime is not that there is a policeman on every corner, since there isn't, but rather, insofar as it is prevented, the fact that people who might be criminals are afraid they'll end up getting arrested



and going to jail if they do. That can be done privately as well as publicly.

In addition to having people providing you with the equivalent of police protection, you also need laws. You also need some rules to decide who is or isn't in the wrong, what you get punished for, and so forth. And in the system I imagine, those rules are going to be negotiated between the private rights-enforcement agencies.

If you imagine that I'm a customer of one agency, you're a customer of another, and one morning I discover my television set is missing—the camera that my rights-enforcement agency prudently installed in my living room has a picture of you carrying the television set out. So they call you up and ask for my television set back, and you say you've never seen my television set, and that, if they try to use force to make you give it back, you also have a rights-enforcement agency that will protect you. That's the scenario that people usually come up with in some version, and so why the kind of system I'm describing can't work.

The trouble with that scenario is that these are private firms, and fighting each other is very expensive. It also gives very unpredictable results. So it's in the interests of the two firms to agree in advance on a private court that will settle such disputes, and you will then have law that is being created on the market by private courts, being sold to the rights-enforcement agencies, which in turn are, in effect, reselling it to their customers. And that means a market with market incentives to try to generate services and legal rules that people like.

That's a very short description of something I describe in considerably greater length in my book, *The Machinery of Freedom*. You can get a free PDF of that to download from my web page, or you can buy it online from Amazon. I'm working on a third edition, but what you can get now is the second edition.

**WOODS:** Well, I have to admit that is a sounder, more substantial answer than I expected to hear at a cocktail party, but I'm grateful for this.

Now I guess what I would be still concerned about, though, my being Joe Blow here, is when you say "the system I imagine." It makes me think that this is a system that a bunch of philosophers developed in their studies, which may come out well in their studies, but if we applied it in the real world, we may find that it doesn't really work all that well, and that we might in fact long for the government systems that we had given up.

Is there anything practical in the real world you can point to that would indicate this would work?

**FRIEDMAN:** Let me start by saying that I think your basic argument is a good argument. One of the reasons why I'm a very conservative anarchist is that I don't think one can be certain of one's ideas of what will work, and therefore I'd be in favor of gradually eliminating the government, not doing it overnight. But there are quite a lot of real-world examples of things that have elements of this.

Let me take the one which is perhaps the biggest, although not very visible, one in our society. If you have an auto accident, the question arises of whether you or the other driver was responsible. And in practice, that question is never going to go to the court. Very rarely goes to a court. It's decided by the insurance companies. The insurance companies are in the same position that my rights-enforcement companies would be in, in that they have a dispute between them. Each of them would prefer that the other company be held liable. They know they are going to have these disputes many times in the future. The equivalent for the insurance company of fighting is litigating, because it's expensive to go to court. So instead, the auto insurance companies have worked out various rules of thumb among themselves by which they decide which driver is liable, and thus which insurance company has to pay. So that's a very large-scale example of a bunch of private firms that have disputes with each other that could settle the disputes in an expensive way by suing each other, but, in fact, have worked out a better solution.

That's only one example. I could go on to give other examples. For example, as you may or may not know, in eighteenth-century England, on paper they had our legal system. That's what our legal system descended from. But they didn't have police or public prosecutors. So, if you were the victim of a crime, it was up to you, or somebody you hired, to find out who did it, to bring the witnesses to court, and to convict them. That system worked tolerably well for quite a long time in a very successful society. There were people called thief takers, who were in the business of catching thieves. So that would be a second example.

A third example, going farther back, but a society that I've always found very interesting, is Saga period Iceland. Iceland was settled starting in the ninth century, somewhat more than a thousand years ago, and they worked out an interesting legal system in which they had a legislature. They had a law code, and they had courts, but there was no public enforcement. So after you got your verdict, if the defendant who the court said owed you 50 ounces of silver didn't pay, you went back to the court. The court declared him an outlaw. He had two weeks to leave Iceland. If he didn't, it was legal for you to kill him. And it was illegal for anybody else to defend him. So if they did, you could sue them, too.

And, again, if people are sufficiently curious, you can find a chapter in *Machinery of Freedom*, in an old article that I published in *The Journal of Legal Studies* many years ago, sketching how that system worked.

There are quite a lot of other examples historically of societies in which various parts of what we think of as basic government functions were actually done privately.

**WOODS:** People generally think that you need to have law first, so that you can have the market. And you are suggesting that law emerges bottom up from the market. This reverses the order in which I think people instinctively think these things have to occur.

**FRIEDMAN:** Well, if you actually look historically, I think it is pretty clear that law of the form that we are used to—legislation, law created by states—is a relatively late development.

I think most of the historical legal systems we know about seem to have started out as a decentralized

system, in which you have sort of customary law being privately enforced—what is sometimes described as a feud system, in that the ultimate enforcement was my threat to attack you, if you didn't pay me what you owed me, and then later developed a legislative law on top of that.

I'm actually working on a book at the moment on legal systems very different from ours. And I think there is pretty clear evidence that not only Anglo-American common law, but Jewish law, Islamic law, Roman law, possibly Chinese law—I'm less sure about that—all started out as decentralized systems in which people were essentially defending their own rights, and then gradually have legislated law of some form or other superimposed on top of them.

So I think just historically that the kind of law we are used to is a fairly late development. And similarly the idea of public law enforcement—the fact as I said, England, just roughly a little over 200 years ago, didn't have a police force. That was all being done privately.

**WOODS:** Now no one would say that the system we have now is one in which the wealthy have no particular influence, and the wealthy are just as likely to be found guilty as the regular schmo. I mean, anybody watching a celebrity trial knows that the celebrity seems to get a lesser sentence and greater consideration.

So nobody is saying we have a perfect system now, but I think the concern would be that if you had a market system, there'd be no way to prevent the super wealthy from being able to exert their influence over the private courts. Is there any way to prevent that, or shield against that?

**FRIEDMAN:** Let me make a couple of related points. The first is that the really big inequality at the moment is not so much between the rich and the poor as between the government and everybody else.

As you probably know, the Director of National Intelligence committed perjury. He told a lie to Congress in sworn testimony some time within the last year. He admitted doing it, although not in so many words. What he said was he had told as much truth as he could. And there is no chance at all that he will be indicted for perjury, which happens to be a crime.

Barry Bonds, on the other hand, who was a prominent and wealthy person, got into a whole lot of trouble for doing essentially the same thing, except that he didn't admit that he had lied—although it may well be that he did.

So I would say that the first big inequality in our present system is that, since criminal law is controlled by the state, and you don't get a trial unless somebody charges you and indicts you, the state always has the option of simply ignoring crimes that are committed by people whom they approve of, as in the case of the perjury that was done in order to hide what the National Security Agency was doing in terms of spying on the population.

I could offer quite a lot of other examples. The one that originally struck me a very long time ago, when

I was a graduate student in Chicago, was that a group of Chicago policemen came to the door of an apartment full of sleeping people, and opened fire through the walls, killing two people. The people inside were Black Panthers, whom the Chicago police didn't much like. The police claimed that the Panthers had shot first, but no evidence was ever offered for that. None of the policemen was ever charged with murder, which was pretty clearly what they had committed. They did get sued, however. That is, the city, state, and county, I think, ended up settling with the survivors for a several hundred thousand dollar damage payment, because tort law, where you sue people, is partly under private control. It's the victim who gets to sue, whereas criminal law is entirely under public control.

So, I think my first answer is that my system eliminates the really big inequality, which is that, as I like to put it in a historical context, if the king controls criminal punishment, the king's friends can get away with murder. And in the particular case I described, they did.

The second point, though, is if you look at how markets function, not very much of what they produce is aimed at the super rich. GM doesn't mainly make gold-plated Cadillacs. The big market is usually in the middle, for people who have some money, but not huge amounts. A court which routinely gives unjust verdicts in favor of rich clients isn't going to be very popular with anybody else.

If you look in our society, at where the inequality is greatest, it's not on the market. The two things with regard to which poor people in America are worse off are police protection and education, both of which are being provided by the state. If you go to a poor area of the inner city, the grocery stores have the same goods as in the rich areas. The quality isn't quite as good, and the prices are a bit higher, and there is a smaller selection, but it's not a huge difference. I've lived in such areas, or at least shopped in such areas occasionally. On the other hand, people in those areas don't have the option of going to a school nearly as good as a suburban school, and they don't have the option of walking around at night, as I can do, in reasonable safety, with confidence there'll be no crimes. So I think, on the whole, government does a rather worse job of providing services to the poor than the market does, not a better job.

**WOODS:** Now, in closing, I'd like to ask you more of a personal question. The one time we met was in Brazil, and I didn't get up the guts to ask you, but I want to know how you personally came to these views.

Of course, you were born into a very significant family. Your father was Milton Friedman, a man of many merits. But he did not believe in anarchism the way you do. So, obviously, you learned some things from your father, but at what point, or what argument, or what book, was it that made that thing go off in your head where you said, "No government at all would be the ideal"?

**FRIEDMAN:** I think the answer is the science fiction novel by Robert Heinlein called *The Moon is a Harsh Mistress*. Basically, my view when I was 15 or 16, when I went away to college at 16, was that you needed a framework provided by the government with everything else being private. More or less what was referred to as the classical-liberal, minimal-government-functions view. I wasn't entirely happy with that, but it seemed to me it was the best that I could manage.

And what Heinlein did was to provide a plausible fictional account of a society where law and law enforcement were privately enforced. It was a science fiction story. The society was set on the moon. I won't go into the details. It's actually quite a good story in many ways. And since I thought that it was impossible to do that, giving me a believable example of any society that did it meant that it wasn't impossible. It might not be practical. That would be more complicated. So I started thinking about what the equivalent of his system would be in the kind of world that I lived in, the kind of society I lived in. And out of that developed the ideas for my first book.

**WOODS:** And when was *The Machinery of Freedom* first published?

**FRIEDMAN:** In 1971, I think. I think it's copyright '71. It would have been around there. So it's about forty years ago.

**WOODS:** Can you give us a sneak preview of the types of things going into your third edition? How is it changing?

**FRIEDMAN:** The third edition I will probably leave what's there pretty nearly untouched, and do what I did with the second edition, which was to add additional material.

The additional material—some of it involves ideas in the original book that I've thought through more carefully and added more detail; in particular, ideas about the nature of rights and the nature of government. I've got an essay which I think I've got linked to my blog, if people are interested in it, called "A Positive Account of Property Rights," and it's really about rights in general. It's an attempt to understand rights, not as either a moral or a legal category, but as a description of how human beings behave. And from that answer the not-all-that-simple question of, "Why do you call some things governments and not others, what are the defining characteristics?" So that's one thing I think I've worked through in more detail.

I've also got a number of things that I've written since in various contexts. Some of them were blog posts. Some of them were articles in which I have additional ideas that I think are relevant.

One of the chapters in the first book was on national defense and described it as the hardest problem, and I've got some more ideas of possible ways of solving that problem, so there's a chapter on that.

My plan at the moment is sometime reasonably soon—I hope in the next month or two—to get drafts of all the additional chapters written and put up on my website for comments, and then to go on from that to polish those drafts and consider the comments and assemble those into another book.

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# Will Robots Take All Our Jobs?

## Guest: George Reisman

### November 15

*George Reisman is professor emeritus of economics at the Graziadio School of Business at Pepperdine University and the author of Capitalism: A Treatise on Economics. He received his Ph.D. in economics from New York University, under the direction of Ludwig von Mises.*

**WOODS:** George, I had you in mind in particular when I watched this recent *TED* talk by Andrew McAfee about what the jobs of the future are going to look like. The strong implication of this video—it's not an implication; it's an explicit statement—is that robots are really going to take our jobs away. Unlike in the past, when people feared that mechanization would take jobs away, they were wrong: there were more jobs created. But this time is different. These robots can do customer service. They can do so many things that it's really going to hurt the guy who's low skilled and at the bottom of the economic ladder. What was your reaction when you watched this video?

**REISMAN:** Well, I watched it step by step, and I looked at his examples. I think he starts off talking about driverless cars. He thinks that's going to cost a lot of jobs. And then he's got robots lifting heavy objects to put away on shelves. His examples add up to nothing.

The wider principle is, anytime we have improvements in the productivity of labor, the same underlying foundation of science and technology that makes that possible also brings about new and additional forms of wealth and new and additional uses for wealth.

If we start with the driverless cars, well, I Googled the number of truck drivers in the United States. It turns out there are about three and a half million truck drivers. But there are also, apparently, 230 million registered automobiles. That sounds a little bit large to me, but that's what you'll find if you go Google the subject.

If you think about it, if people were really free of having to drive their cars, well, they're not just going to sit like zombies in the seat. They'll need entertainment centers, maybe an office in their cars with a computer and an Internet connection, maybe a refrigerator, a microwave oven, maybe even an exercise machine. So, you're talking about the passenger vehicle requiring a great deal of additional wealth, far and above what it represents today, ultimately times the number of vehicles on the road.



I think if we were, in fact, to lose three and a half million trucker jobs, we would gain vastly more need for labor in improving the outfitting of automobiles. I doubt that we'd lose that many trucker jobs, in any case, because now we could use the people who had been drivers—they could be doing things with respect to the cargo, other kinds of work affiliated with trucking, and so forth.

And, as for the robots lifting heavy objects onto shelves, I don't see any difference in principle between that and the introduction of the forklift, which got rid of all the super-strong heavy lifters that were needed in the past. Now, if we're able to reduce the need for labor in stacking merchandise, that reduces the overall amount of labor needed to produce and deliver products, and makes it possible to be profitable at lower prices. The lower prices increase the quantities demanded of the various products, and that will result in an increase in the quantity of labor required at all the steps in production, other than warehousing. So it's entirely possible that more people would be employed, all things considered, in the same lines where the warehousing improvements occurred.

To the extent that isn't the case, all the money that people save in buying products because they have lower prices, but people are not buying sufficiently larger quantities to use up as much expenditure as before—that just means they'll have funds left over to buy other things. And the other things they buy will require the employment of additional labor in other lines.

So, the net effect would be, while we have fewer people stacking goods in warehouses, we'd have just as many or even more people at other stages of production, and/or producing different kinds of products. The net effect would be we'd have all that we now have, plus the new and additional output that could be produced by the release of labor from stacking goods in warehouses.

**WOODS:** Now I can imagine, though, this guy coming back and saying the trouble is that robots are getting to be so sophisticated that they can do all types of labor. They can even do customer service over the phone with you. I would, by the way, suspect that people would be willing to pay a premium still to speak to a human being, even in the age of robots. But, in other words, there's no logical end to what they could do, so what about this fear that I think some people have? They go to the logical conclusion. They say, "What if robots can do absolutely everything?" Would this be like comparative advantage? Would it be like the United States trading with Vietnam? Like the robots can do everything? How would something like that work? I'm just saying that for the devil's advocate sake. Image the robots can do all those new and additional things.

**REISMAN:** Well, you know, we have creatures that can do all those things. They're called human beings. And the question is, are other human beings a threat to us? No, there's room for all the people in the world who want to work. They can work. And all that robots can succeed in doing is augmenting the productivity of human beings. They can never be a full replacement for people.

Just consider, if robots are stacking goods in warehouses, and we have the driverless cars, well, the question is which one of the robots who's busy stacking goods in warehouses, would he be able to walk out of the warehouse and get in the seat of a car and drive it?

**WOODS:** Okay, probably not.

**REISMAN:** No, I wouldn't think so. All that a robot represents, anything that rests on computers, it's essentially similar in nature to dominoes falling over. It's pure mechanistic causation, and every robot needs to be programmed, and it's all in the form of, "If this, then do that." Or, "If not this, do something else." And the programmer has to think of all the possible alternatives. Nothing programmed can be a match ultimately for human beings.

We often get the example that now robots are so smart a computer chess master can beat a human being. Well, if the human being is playing just by himself without the aid of anything, that may be true. But now imagine that we have a human being who himself got the aid of a computer chess program, which he can consult and use. I would say the human being, having the aid of some computer chess program that's devised by human beings, would beat the computer program by itself. You can't program for every possible alternative situation. You need beings around who can do fresh thinking, and robots can never do that.

**WOODS:** In the video, he's saying that one of the concerns might be that if the robots can produce so much because they're so productive, where do we get the purchasing power—his view is that because everybody will be unemployed, nobody will be able to buy all the extra goods. But, I suppose that's answered by your claim that, to the contrary, they won't be unemployed. There will be other things opening up for them.

**REISMAN:** Yes. And the key thing is there's fundamentally no limit to our need and desire for wealth, and the amount of labor required to accomplish that.

We possess the faculty of reason, and because we possess reason we are able to have a knowledge and awareness of things ranging from subatomic particles to entire galaxies, and all kinds of patterns and similarities and differences in relationships in between. That being our range of knowledge and awareness, that sets the limit to our range of action and experience.

We have the potential to act with respect to outer space, and to a very modest degree, we're doing that. We have the Martian Rover. We have a satellite that's now photographing Saturn, and so forth. And if it were possible, if the Martians could do for automobiles what gravity does for holding tables and chairs solidly on the ground, and what atmospheric air does for our ability to breathe without having to produce the air, that simply releases our time and efforts for the achievement of other things.

Ask yourself, will we reach the day when we can no longer imagine anything that can benefit us in any way that we don't presently have? Well, I don't think we can imagine such a thing. So long as we are able to visualize things that would improve us in any way, those things require the application of labor. And instead of producing the kinds of things we've customarily produced, we'll produce totally new and different things.

That's the situation with the Martians. Do the Martians have nothing that they can produce beyond what they're now producing? Imagine everything has the status of free goods, the atmospheric air, sunlight, and we don't have to do anything. We don't exist and function automatically. We'll never be indestructible. We always have to be on the lookout for ways to prolong and enhance our survival. And that's a problem that will always face us, and there's no limit to the labor that can be expended in improving that area.

**WOODS:** Well, let's suppose somebody, for the sake of argument, granted you these points. They could still come back with the inequality argument—and that was a central point of that video, which is that people who are skilled in this type of economy are going to do super well, and people who are not so skilled are going to do not as well. It seems to be the case that we have seen increasing income disparities and on and on.

Now whether or not we should be concerned about inequality, that's a separate issue. I mean I couldn't care less about it. But how do you think we can account for, if we indeed have seen income inequality over the past, say, half century—where do you think that's coming from?

**REISMAN:** Well, let me address that in just a moment.

The truth is these advances enable people of lesser skill and ability to accomplish what used to require people of greater skill and ability. If you walk into a fast-food restaurant, I'm sure many of the people who will take your order, thanks to today's school system, really can't add or subtract. Nevertheless, they will almost always give you absolutely correct change when you give them a bill to pay for what you've ordered. And how do they do that? Well, they're working with little tablet computers, so they know what you've ordered. They press an icon or a key or something, and they have to be able to press the size of the bill you're paying them with, and the computer or tablet does the subtraction. So it enables people who themselves can't add or subtract, to accomplish addition and subtraction.

Now, with more intelligent people using the computer program Excel, in a moment, you can solve compound interest problems, calculate interest rates on mortgages and whatever, that, in the past, would take a tremendous amount of time by someone who knew a fairly substantial amount of mathematics. Today anyone can do it in an instant.

If you look at what people can accomplish, you know human beings physically are very weak compared to gorillas, elephants, whatever, but we can accomplish greater physical results than any animal, because of our use of machinery and equipment of various forms.

The basic overall point is that technological and scientific progress, instead of representing any kind of threat to people of lesser capability, are augmenting his abilities. They are not a threat.

Now, there may be some people who are superior to others in every relevant respect. The example I like to use is Bill Gates. I'm willing to imagine that Bill Gates could do every conceivable job we could think of ten times better than anyone else. Is Gates a threat to people of modest ability? Suppose Gates,

if he wanted to be the janitor at a Microsoft factory or building, could be a ten times better janitor than anyone working there. Well, that's not a threat. The people whose abilities are limited to being janitors can easily outcompete Gates, and they do it through their lower income.

If Gates can make a million dollars an hour running Microsoft, and he is ten times better than the average janitor, well, if you only have to pay the average janitor ten dollars an hour, then you can have Gates doing the job of ten janitors at the cost of a million dollars, you'd have ten more great janitors doing it at the cost of one hundred dollars. So who outcompetes whom? The less skilled janitors outcompete Gates. What enables them to do it, without any question, is that their incomes are so much lower. Gates needs to have an income commensurate with his areas of greater advantage, so that rules him out of competing in other areas where he still has an excellent advantage.

Now, I think a major point of the explanation for unemployment, especially on the part of low-income people, is that the government and labor unions prevent them from competing. What they need to be able to compete is to accept lower wages. If they could accept lower wages, then they would outcompete people of greater ability than they have for the jobs they can do.

If the government requires that they be paid a minimum, to hire the minimum that the government requires them to pay, the more difficult it's making for them to compete. They're simply not worth that much. Now this applies to minimum wages, labor union scales. The higher you set the minimum, the more difficult it is for people at the low end of ability to be competitive with people of greater ability.

The same thing works in their capacity as consumers. The higher the minimum standards you set the product, if products have to have more and more features, if apartments have to have more and more space and windows and so forth, you're requiring that the cost of getting something that you want is higher and higher, and the people who can't afford that are the poor. Imagine if we had a regulation that no automobiles could travel the public roads that were older than ten years. Now, who would be hurt by that? Would it be the people who buy a new car every three years? Would it be the people who can afford a recent model used car? Well, it would be the people who can't afford more than a car that is over ten years old. They're the poorest people. They would be denied the ability to buy a car.

Now something else that works along these lines is the government requiring more and more things that employers have to pay for. Safety regulations. Environmental regulations. You know, the typical public attitude is that profits are an infinite slush fund, and any time there's something the government wants done, the payment for it is going to come out of profit. Well, that's a fallacy.

Profits are very limited in amount, and the rate of profit has not been going down. You can't get very much from profit. So when the government imposes regulations that have higher and higher costs, whether environmental or safety or whatever, where it comes from is at the expense of wages. And that means that in order to still be employable, the workers would have to accept lower take-home wages than they otherwise would have been able to get. The cost of these safety and environmental regulations is really at the expense of the wage earners.

**WOODS:** Now on that point, I very much am fond of the way you explain the subject of safety regulations and workplace conditions, because at least, speaking for myself, I can say when I was in junior high, our textbook made clear that, in the old terrible days of laissez-faire, people worked in terrible conditions in factories and so on, but thank heavens, the implication goes, the government intervened and now we have much better conditions.

I like the way you explain this, so I hope you can discuss it with us. How did we really go from a case in which people were indeed working in very difficult circumstances, but now it's much better? It's not because the government has grown larger in the interim. What was the process by which working conditions were improved?

**REISMAN:** Tom, the fundamental process is a combination of scientific and technological progress manifesting itself in improved capital equipment. This is what set the pace of productivity of labor.

When we started out, before the industrial revolution, I think perhaps something on the order of 90 percent of the labor of a society was required just to grow its food, to produce enough food to keep the population alive, and, of course, some extra for the nobility. But as we increased the productivity of labor and agriculture, that labor was no longer needed to grow food. It could start to produce other things. Some of the other things that were being produced started to further increase the productivity of labor and agriculture, like the early railroads, the steam engine and so forth. Today, we need only about three percent of the population to produce more than enough food to keep the population of the United States very well supplied with agricultural commodities.

As this process occurs and the productivity of labor rises, the rise in the productivity of labor is the foundation of rising real wages, what a wage earner can buy with whatever money he earns. The key thing about real wages, what you can buy with the money you earn, is the relationship between the wages you earn on the one side, and the prices you have to pay to buy goods on the other side. What happens is, as the productivity of labor rises, the same number of workers can produce more and more, and a larger number of workers produce more in the same proportion, or even in greater proportion. That operates to reduce prices relative to wages. It's increasing the buying power of money wages. And as this occurs, the standard of living rises. And as the standard of living rises, people can afford to work shorter hours.

In the early years of the Industrial Revolution, with a horrifically low productivity of labor, it might take 80 hours a week just to produce the equivalent of enough to stay alive. But a generation or two later, if you're continuing to work 80 hours a week, well now you can produce, two, three, or maybe four times what's needed to keep you alive. In that environment, you can afford to have a shortening of hours. But, if you could earn four times as much continuing to work 80 hours a week, now, if you work sixty hours a week, you earn three-fourths of four times. You will triple your standard of living, instead of quadrupling it, but you'll only have to work 60 hours instead of 80 hours.

And, in fact, workers, if they really want to work shorter hours, the earnings of shorter hours can be so much less than proportionate to the longer hours. That means you're like building in a premium

on overtime. Imagine that the wages of a 60-hour week, instead of being three-fourths of those of the 80-hour week, are 70 percent of an 80-hour week, or two-thirds of those of an 80-hour week. Well then it actually becomes cheaper on a per-hour basis for employers to offer the shorter week. It's to their material self-interest to do that, and so they do it.

Now, at the same time, workers can afford to keep their children home longer, because they're not desperate for every last possible penny of earnings. So the age at which children went out to work initially might have been four years of age in some cases, or even less than that. But it gradually starts rising. It becomes six, seven, eight, ten, twelve, and now today, maybe 25.

But that's the process. The rise in the productivity of labor shortened the hours of work and did away with child labor. And, in the same way, it served to improve working conditions.

There are basically two kinds of improvements to working conditions, and they both pay for themselves. And employers can be expected to put them into place just out of pure self-interest. If an employer wanted to apply a new machine, if it cuts his costs, well, he'll certainly do it. And if installing electric lights will cut costs by reducing accidents and enabling the workers to accomplish more, they will do that. It's just a cost calculation.

Now there are other improvements in conditions that make life easier for the worker that are not of a kind that can pay for themselves through reduced costs. They don't reduce costs sufficiently. Workers can still have such improvements probably if they pay for them indirectly by taking lower take-home wages. And they are more and more in a position to do that as improvements in the productivity of labor raise their real earnings. So today in the United States, if you ask someone to work without air conditioning in sweltering summer heat, he might be willing to do it, but only if he can earn 20 or 30 dollars a week more in such a job than he can earn in another job that is available to him. Well then the question is, which is cheaper for the employer to do? To pay a premium wage of 20 to 30 dollars a week to induce workers to work in these terrible heat conditions, or to install air conditioning, which, if the air conditioning only costs him five dollars per worker per week, it's certainly cheaper to install the air conditioning than to pay the worker a premium wage of 20 or 30 dollars a week. So air conditioning will be installed.

But in Bangladesh, while it might still cost four or five dollars a week to install air conditioning, workers' whole wages are not yet five dollars a week, so it's unthinkable to install air conditioning in Bangladesh under present conditions. Someday, if their productivity rose sufficiently and their real earnings rose sufficiently, they could afford the comparatively lesser earnings of working in air-conditioned conditions, but not today.

Any time the government is trying to jack up wages arbitrarily through minimum wage laws, through turning labor unions loose, and compelling employers to bargain with them or have their factories bombed or made inaccessible, it's not raising the standard of living of the workers. It's causing unemployment, and less production, and higher prices. And if it requires that workers work less when they are not yet in a position to afford it, it's just forcing their income down lower than it would be. Let's think of Robinson



Crusoe on his desert island, and Crusoe has decided that to live he needs to work 80 hours a week. Now, imagine he could be visited by a social worker who is sending a report back: Crusoe is overworking. We have to compel him to work only 60 hours a week. Well, what would be the effect of that on Crusoe? He would simply die of starvation.

And does anything change if we substitute for Crusoe the Swiss Family Robinson? Here we have this family that's self-sufficient. They have some children that are working, and now, why are they working? Well, their contribution is needed to help the family survive. If they are prohibited from working, thus reducing the output of this desperately poor family, then we threaten their survival, or make them accept a lower standard of living than they already had. Well, that seems like the child labor laws that are imposed before people are in a position to afford to do away with the labor of their children.

The same thing goes for imposing improvements in working conditions. The government is not creating the improvements in working conditions. All it is doing is forcing people to behave against their judgment of what serves their self-interest. It actually reduces the standard of living in the belief that it can just create improvement out of thin air.

The supporters of government intervention and socialism live in a world of floating ideas that have little or no connection to reality. They think that all they need to do is manipulate work, and so the government can magically shorten the workweek, raise the standard of living, abolish child labor, improve conditions, and they have no idea what is in fact required to accomplish these things. Their interference serves to cause wreckage.

We have an excellent demonstration of the devastation of this mentality that we can read about in the newspapers. It's called Obamacare. The government decided they wanted to reduce people's insurance costs. They wanted to improve the quality of their insurance coverage. And the upshot is people are being denied insurance they already had, in the hundreds of thousands. Or if they're not going to be denied it, they have to pay a much higher price. This is a government that thought all it had to do was make decrees, that it could decree everyone will now be better off, because the great Pharaoh Obama has so decreed. Only it doesn't work that way. When you come into the market and are violently requiring that people change their behavior, you're making them act against their self-interests. You're causing harm, not improvement.

**WOODS:** Well, George Reisman, this is why I wanted to have you on the program. This is why I enjoy reading your work, why I enjoyed reading your important book, *Capitalism*. I love the relentlessly logical and step-by-step nature of your arguments. If people want to follow you and find out more about your work, is [capitalism.net](http://capitalism.net) the best place to go?

**REISMAN:** Yes, it is. And I've just joined Twitter, and my handle is @ggreisman.

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# The Gettysburg Address

## Guest: Richard Gamble

### November 19

*Richard Gamble is associate professor of history at Hillsdale College, where he holds the Anna Margaret Ross Alexander Chair in History and Political Science.*

**WOODS:** It is very important to talk about this subject here given that we are speaking today on the 150th anniversary of the Gettysburg Address. It's an iconic speech, really. It's something that everybody memorizes in school, and we all doff our hats to it, and it's almost like a sacred text. In a way, that's what's wrong with it. So, why is it important for us? If I were to ask the average historian or the average American politician why is it important for us to study the Gettysburg Address or be aware of it, I would get a fairly predictable answer. But I think I'm going to get a different answer from Richard Gamble.

**GAMBLE:** I think you might. I'm interested in how the speech was absorbed into what we could call the American political theology, or into the American civil religion, or maybe even say into the American scripture. That scripture has been added to over the years. We have the Declaration of Independence in it. We have the Constitution. We have maybe George Washington's Farewell Address. But that Gettysburg Address has taken a pride of place, really, in the American scripture.

**WOODS:** Now, you've done some important writing on what we might call the American civil religion, and I think this is really where the Gettysburg Address comes in and is so important. So, first of all, what exactly is a civil religion?

**GAMBLE:** That's a really important question, Tom, and I think even a lot of scholars, who are supposed to be experts in this, don't give careful enough attention to defining our terms. There are two broad meanings to civil religion. The one is the use that the government, that the state makes use of religion, religious language, for its own purposes. How the state appropriates religion. Sometimes this can be very subtle. Sometimes this can be overt. And I can come back to that, if we'd like to flesh that out. The other meaning of civil religion is when we take some of the events, people, documents, ideas, the themes of our own history and elevate them to such a degree that we turn them into something sacred, something that becomes part of a national liturgy for us, something part of, as I was saying, a national scripture.

Now, not every aspect of that would be dangerous. I have more reservations about a nation state taking

the language and the imagery and verses from the Bible and attaching it to itself. I have deep concerns about that. And, I've written, as you said, for many years about that problem. The other side of that, the other side of civil religion, this elevation of these secular matters to such a degree that they become sacred to us, I have fewer concerns about that, but I do have a concern when we take them as dogma, when we take them as almost parts of a national apostles' creed. We recite them. We confess them together. And that means that we don't really read them anymore. We don't scrutinize what the words on the page actually say, what they meant at their own moment in time. They tend to be these disembodied words, detached from all context, all history, anything recognizable as tangible meaning.

**WOODS:** Well, let me raise something that concerns me quite a bit about this phenomenon, and we see it not just in the Gettysburg Address and the rhetoric of Lincoln, but in many different aspects of American history. It is the appropriation of religious language and the application of religious language and biblical imagery to the U.S. government, to the U.S. government's intentions, to the U.S. government's adventures overseas. And so these things then leave the mundane world of everyday life and ascend to the heavens and become beyond question, because we sort of imbibe them as we would a religious text. Whether or not we ourselves are personally religious, we're reading something, and we're hearing words that have a religious resonance, and because of that, we instinctively then think of the goals and aims and purposes of the U.S. government as being something that's not quite this worldly, but really something that is greater than, that is larger than life.

**GAMBLE:** Right. We invest it with this power and authority, as you mentioned, this sacred authority as if the pronouncements of the United States government were handed down along with the Ten Commandments from Mount Sinai. Or as if they were part of the Sermon on the Mount that Jesus delivered. And that these have the same binding power upon people in how they think about their government. And in its very worst manifestation, it can reflect a kind of idolatry, the idolatry of the state, even in very subtle ways, ways that we don't realize we're doing. We ascribe to government a role in our lives that it cannot, and ought not, possibly hold.

**WOODS:** Well, let me depart from this article just for a minute. We're talking about your article "Gettysburg Gospel," that people can read at [theamericanconservative.com](http://theamericanconservative.com). It's in the November/December print issue, but you can also read it online at [theamericanconservative.com](http://theamericanconservative.com), and we're linking to it next to this program at [TomWoodsRadio.com](http://TomWoodsRadio.com). But just to flesh out the idea a little bit, I want to refer to a couple of your other books, because this theme is really a very important one in your writing.

Your book, *The City Upon the Hill*, tell me again the title.

**GAMBLE:** It's *In Search of the City on a Hill: The Making and Unmaking of an American Myth*.

**WOODS:** Now that book, which I actually reviewed for this very publication, is examining this image that we hear. It's funny, I hear people once in a while say, "As Ronald Reagan said, 'We are a city upon a hill.'" Which is just wrong on so many levels. Like Reagan thought that up, right? Or, "as John Winthrop said. . . ." Well, that's at least one level better. But what you showed in there was that this seemingly

innocent image has a biblical meaning, and it's perfectly fine in its biblical meaning. It began to have a secular meaning, and that becomes a problem.

Likewise, you have a book, *The War for Righteousness*. Now whether or not the U.S. should have entered World War I is a practical question. But it became elevated to the level of dogma because, well, Germany became Satan, and the American soldier was Christ. Flesh some of this out a little bit. Tell us about this.

**GAMBLE:** Sure. I'd be happy to. And you're right. This has been on my mind for about twenty-five years now, and, as a matter of fact, you'll probably be pleased to know that my current project is on "The Battle Hymn of the Republic."

**WOODS:** Oh, fantastic!

**GAMBLE:** We'll have to come back to this conversation another time, too, and flesh it out a bit more.

There has been a powerful tendency in American culture going all the way back to New England settlers especially, Puritan settlers in the early seventeenth century, to talk about where they were. I like the term you used just a moment ago: "practical affairs." They would talk about the practical affairs of this world—government, economics, society, social order—as if they were an extension of the life of the Christian church. I think innocently at first in ways we really don't find very surprising, considering who they were, where they came from; they talk about their political community in New England as if it were actually a church congregation. That meant they took, as a matter of habit, they took the language of the Old Testament and the New Testament, language talking about the church—

Let me give a concrete example here. In the New Testament, when the apostles say that Christians are members, one of another, or that they are bound together by the bonds of affection, that is a spiritual truth about the church.

But when you say that your political community is bound together in this way, ought to be bound with these bonds of affection, then in ways subtle and not so subtle, these settlers ended up taking the identity—they took the language of the church, and they took the language of Old Testament Israel, and therefore, they took the identity. That allowed them to slip into this pride and arrogance of thinking that all the promises that God had made to Israel, all the promises that God had made to the Christian church, he actually made to this American colony—when he says that "Your enemies shall be my enemies," and it gets more and more exaggerated over the years. We see it again during the Revolutionary War. We see it back during the colonial wars. You can hear it in the sermons of George Whitefield, back in the 1740s with the colonial wars. We see it again in the War of 1812. We hear it among the New England Transcendentalists and others in the 1840s, 1850s. Civil War—major, major instance of this mixing together of the church and the state, of the heavenly and the earthly, of the things of God and the things of Caesar. And it goes on to the Spanish American War, World War I, World War II. And that habit is with us to the present day.

**WOODS:** And this language is absolutely everywhere. The U.S. government has appropriated biblical language and references and applied them to itself again and again, and yet the people who least object to this are Christians themselves, who are the ones who should stand up and say, “Well, this is blasphemy. This is idolatry of the most grotesque kind.” But instead, they are tying yellow ribbons to their cars and waving little American flags.

**GAMBLE:** This has become a real burden to me as a writer, as a teacher. And one of my goals is that I hope what I write with my articles and my books will especially reach people who identify themselves as conservative Christians or evangelicals. That’s not my only audience, to be sure, but I hope they become self-aware—that’s never been true before—become aware of how the culture uses this language, how their government uses this language, how they themselves use this language. I hope that people in churches that use the Pledge of Allegiance as part of their liturgy—and I know of an example of that in Georgia—I hope they think seriously about the implications of what they’re doing. And that they realize in a fresh way that they can be good Christians and good American patriots and keep those two things in separate categories.

**WOODS:** I want you to say a little something about the religious language that’s in the Gettysburg Address. It’s not as obvious as it might be in some other speeches, yet when you look at it closely, it actually does start to jump off the page a bit, if you know the biblical references. So can you give them to us?

**GAMBLE:** I can, and I’ll start with two observations. Lincoln himself was far more explicit in other speeches of his. From the time he was a young man in the 1830s, he would quote the Bible as his whole generation would. He would quote the promises of Jesus that the “gates of hell” would “not prevail against” the church. He would apply that to the American nation, to American ideas. He famously used the “house divided against itself will not stand”; that’s right out of the Bible, Jesus talking about the work of Satan. So he used the Bible quite explicitly. But you’re right, in the Gettysburg Address, it is much more subtle, much more nuanced.

The second thing, then, to put in place is his audience. In 1863, they’re present on the battlefield of Gettysburg, or reading this in the newspapers across the country, or even reading it in Southern newspapers, as they did. That audience knew the Bible. That audience knew the King James version of the Bible. It was the book that they were reared on. It’s the book that they were guaranteed to have in the home, the family Bible, read from frequently. So the influence of the Bible is evident in this speech, even in its rhythm, even in its use of the opening words “fourscore and seven years ago.” That’s a very old-fashioned way of speaking, even in 1863. It reminds us immediately of the psalmist saying that man’s years are “threescore and ten, unless by strength they are fourscore.” Eighty years. So Lincoln—even if he’s not aware of it at that point, he is adopting the word choice, the rhythm, the tone, and really then the authority of sacred text. This short speech sounds like, reads like, it’s a passage of Scripture.

Even more subtle than that, there’s language that could be quotations. We have language such as, “bought forth on this continent a new nation.” I’m not saying he drew that directly from the gospels in saying

that “Mary brought forth her firstborn son.” But it echoes that; it brings that to mind. The very closing lines, “shall not perish from the earth.” Thousands and thousands of evangelicals in the 1860s would have recognized that as coming from John 3:16—“shall not perish but shall have everlasting life.”

These are promises of salvation that Lincoln is weaving into this speech in a very artful, very poetic way. The language of consecration, which appears repeatedly—“hallowed”—all of this elevates the speech to the sacred level, and the biblical cadences and the biblical quotations make it feel like sacred text.

**WOODS:** Now given that we can just talk forever about the religious aspect, I don’t want to forget about the political philosophy that’s in this. I mean, the speech is just 271 words. It’s so short. And yet, as you note in your article, it’s sort of disembodied. It lacks specific names. It doesn’t mention Gettysburg. It doesn’t mention North and South. It doesn’t mention slavery. It doesn’t mention the Union. It’s like an ethereal thing, and yet, there is an essential political claim about the history of the U.S. and the Union that is being made in here that your average schoolchild misses completely. The schoolchild thinks the point of the speech is the exhortation that government “by the people, for the people” not perish from the earth—they think that’s the key point of the speech. But it’s not. What’s the key point of the speech?

**GAMBLE:** That’s right. I think even historians on the Left can’t escape what this speech achieves. It changes the American memory, and I don’t want to make this too complex, but let’s just think about the opening sentence: “Fourscore and seven years ago.” That’s eighty-seven years. If we do the math and subtract eighty-seven from 1863, that takes us back to 1776. So Lincoln is claiming that something happened: The birth of—now, not the birth of an independent America happened in 1776; he’s not even saying that the states were liberated from British colonialism. He’s not even saying that the union began in 1776. He argued that back in his First Inaugural Address. He argued that it went back to 1774. What he claims here is an audacious claim that unfortunately we still believe today. He is saying that a nation was born in North America on July 4, 1776.

And to say that a nation, to say that that in the context of the mid-nineteenth century, to say that a nation was born then gives him an entire justification for the American Civil War. It makes the South’s resistance unthinkable. It makes the South’s resistance illegitimate because a single thing was born—a unitary nation state was born—in 1776. And that’s pretty bad history, but that’s powerful history. Back through the Gettysburg Address, we tend to read all of American history up until 1863 through the lens of this short speech. And that’s one reason why I think, on its anniversary, we need to take a fresh look at it.

**WOODS:** Now, toward the end of your article, you bring up this point from Michael Oakeshott, but it’s something that M.E. Bradford also referred to: the difference between something that’s teleocratic and something that’s nomocratic, and you’re saying that Lincoln, just by virtue of this speech, in effect, launches the U.S. on its teleocratic history. Teleocratic means that it’s aimed at an end. Whereas a nomocratic regime would be one in which you have individuals and families and communities and they just live out their lives how they wish.

A teleocratic regime is dedicated to a proposition. You say in here, “Lincoln left all Americans, North



and South, with a purpose-driven nation.” What’s wrong with that? Isn’t it wonderful for us to have a common purpose? And for us to go around the world and do good deeds and stuff? What’s the matter with a teleocratic regime?

**GAMBLE:** Well, as we know from experience, it depends who gets to pick the goal, the end. I get nervous about a central government, a very powerful, armed, loaded, debt-ridden central government claiming that this is going to be the goal of all Americans, and they need to be united in this goal. For those of us who understand the American government more in terms of a government of law and liberty, a decentralized government of law and liberty, a government armed with a doctrine—that’s Burke’s phrase, from the 1790s; he was afraid that the French Jacobins had an armed doctrine—I fear a central government that has a powerful notion of what we’re all supposed to be doing, where we’re all supposed to be heading, what ideology we’re all supposed to be committed to. And the suggestion there is: I find the meaning of life itself by being attached to the American nation-state.

Now, I love America. This is my home. This is the place that is near and dear to me. But I think I can figure out the question of the highest purposes in life by myself, with my family, with my community, with my church. I don’t want the central government saying, “No, this is the purpose—the transcendent purpose—of why we exist. We need to govern you with a big capital ‘I’ Idea.” That’s frightening to our liberty, our individual liberty and our autonomy as communities. And Lincoln dedicates America to a proposition. That might make some people a little bit nervous because that proposition comes—if it is a proposition, it comes from the Declaration of Independence. “All men are created equal.” But when you strip down the complexity of history, strip down a document as complex as the Declaration of Independence, to one part of one sentence, and then say that this is what America means, this is what we must be committed to, it’s a very short step to saying, “Well, you know, my idea of ‘all men are created equal’ is an expansive vision of domestic social justice.” “Well, my vision of ‘all men are created equal’ is a universalist, benevolent mission for the American empire, and this has to be granted to people around the world, no matter how costly in lives and wealth.” We can see how dangerous it is to turn a nation and a people, or a federal republic and a people, into an abstract idea and say we all must be marching toward the fulfillment of that abstract idea.

**WOODS:** I was going to ask you how we see Lincolnian rhetoric in modern politics, but I think you already answered it. It’s something that neither the Left nor the Right wants to give up, because, of course, once you’re victorious politically, then, whatever your ideological pet project happens to be, you can impose it as the real meaning of what it means to be an American, and we have to all march forward according to this idea together. And, of course, this whole kind of total political community idea is completely contrary to the idea of a modest republic, of a government with limited powers, and states, and robust communities. And yet, you have so many conservatives who claim to believe in all those things, but they adopt this Lincolnian rhetoric hook, line, and sinker.

**GAMBLE:** Right. Right. And there are some pretty prominent journals, and prominent editors, who blast away at conservatives who don’t get on board with this Lincoln vision and this modern, mission-driven unitary nation state. That’s deeply troubling because I was taught years ago that conservatism

was non-ideological, that it wasn't about marching in some grand movement. And that's the kind of traditionalism that I have always identified with— that we are capable, in our small communities, of self-government. We are capable of responsible liberty and self-government, and the Lincoln idea has kept America committed to these grand visions of a national community in pursuit of an unending mission.

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# The Not So Wild, Wild West

## Guest: P.J. Hill

### November 20

*P.J. Hill is a senior fellow at the Property and Environment Research Center in Bozeman, Montana, and a retired professor of economics at Wheaton College.*

**WOODS:** Your book *The Not So Wild, Wild West: Property Rights on the Frontier*, published by Stanford, really changes the way everybody thinks about the Old West. The origins of this book are almost surely an article that you co-authored in the *Journal of Libertarian Studies* back in the late '70s; am I right?

**HILL:** Right. It took us a long time to write the book. After some thirty years, it does go back to that article. It might be interesting to note that we wrote that article partially because of our interaction with David Friedman, whom you recently had on, and at that point we called our work on the American West a case for anarcho-capitalism. I'm not sure if we can still use quite that argument, but it's really for a lot of decentralized control.

**WOODS:** Before we get into some of the details, it seems that there has also been a consensus among scholars of the Old West that our view of the amount of violence that existed at that time simply has to be scaled down. Is that your understanding of the literature?

**HILL:** It certainly is, because in novels and good movies, we really see the West as just a case of unending violence. I mean there's data from 1850 to 1890 and in all of the Western states, the best we could find is there were less than a dozen bank robberies. That's over forty years in a whole bunch of states where you think there must be one every couple of days if you look at the movies or TV shows.

**WOODS:** It's interesting. I mean, I understand how the dime novels get started. People want to sell books that are interesting and titillating for the public. How did Hollywood latch onto this? Of course, we expect Hollywood to be truthful and stick to the script, but how did that take off? How did we get this so wrong for so long?

**HILL:** Well, I think part of it was that the bad news sells, so violence also sells. The other thing is that I think people found it difficult to understand how in the absence of formal government people would organize themselves in a way that was relatively orderly, relatively peaceful. So we say, look, we've got

30 or 40 years of life on the frontier, the federal government has almost no presence, the states are just being organized and so what would you say? Well, surely this must be a case where violence prevails and as it turns out, it wasn't the case.

**WOODS:** These particular circumstances seem especially likely to foster violence. You have people, many of whom have no intention of setting down roots there, who plan to go and make their wealth and leave. So you don't have the community camaraderie. You have people of all different ethnic and national backgrounds. People coming from as far away as China to settle there. You would think this is going to be a nightmare. A lot of people would think without formal government any situation would be a nightmare, but certainly this one.

How did you first begin to ask yourself if maybe there was more to this story than we had been lead to believe? Why didn't you just go ahead and accept the standard view about the Old West?

**HILL:** Well, part of it is I grew up in the West and my mother was one of the first children born in eastern Montana and her stories—of course, that would have been just at the turn of the century—but her stories about life there was that it was a peaceful, cultured, civilized way of living and so that fascinated me. Then I started doing more reading of original resources and read the stories about the diaries that the cowboys kept as they trailed cattle up north. You look at records of what happened on wagon trains and look at what happened at mining camps. You're right in each one of these situations. There were valuable resources, people were armed. You would think they would be competing for those resources but they would probably shoot each other. It turns out that most of the time, that's not what they did.

**WOODS:** You have a chapter here which is a little bit different from the themes we're going to talk about for the most part, but this chapter on property rights, "Property Rights in Indian Country," is worth a brief look. The title alone would shock some people because we've been led to believe that the Indians, who are portrayed to us as one homogeneous blob, had no conception of property. It's your view to the contrary that not only did they have property, but they used that conception in ways that were conservationist and that were good for the environment in the long run.

**HILL:** Right. Basically, whenever resources were scarce—and there was competition for them—they decided it probably made sense to form property rights. Nomadic tribes that were moving around a lot didn't necessarily have well-defined property rights to land, and it is from looking at that that the myth that the Indians had no property rights comes from, I think. But if you look at other situations, if you look at the Indians in the Pacific Northwest, they pretty clearly established property rights to the Salmon Spawning Stream. Once the Indians got the horse they clearly had property rights to their horses, and they even had a rental market in horses. A good buffalo hunting horse would be rented to a person who had the best abilities to ride through herds of buffalo and try to take one of them.

**WOODS:** Now, suppose we're imagining people who are settling out in the Old West and maybe hoping to make their fortunes. There are certain sorts of law-and-order type things that need to be done. You would need to establish some system for designating that this is my land and that's yours, or establishing

water rights and so on. How did they perform this basic function that we associate with government when, as you say, there was a very light to trivial federal presence? There was no organized state government at that point. How did this most fundamental function of government get carried out?

**HILL:** Basically there was an agreement and I don't know exactly how it first got started. The first was in a mining camp. They would decide what the size of the claim should be and maybe it would be the first two or three or four people who would be there, the first dozen people would be there so they would write out rights, and they often times wrote them down so people could see them to tell how big a claim would be. It was often times how much one person could work easily. I think the basic reason was that they discovered very quickly that arguing and fighting, particularly when some people are armed, is pretty expensive and it's a lot better to try to get along. So I think very quickly they said, "Let's see if we can't decide you own this chunk, I own that chunk, we'll establish some rules about how you define your property rights." You have to drive a stake in. It wasn't the case that a person could just claim all up and down the stream to take anything he wanted to. The claims were limited and maybe you would want to call that government and if it is, it's a very weak sort of a government, but at least there's an enforcement mechanism and they did agree upon what a person could own.

**WOODS:** You have a chapter called "Wagon Train Governments." What are these wagon train governments and how would they compare to governments we're familiar with today, not in the Old West?

**HILL:** A lot of it again occurs because there is so much potential for violence. You've got this huge number of people between 1840 and 1860, about 300,000 people trying to make their way across the Great Plains. They're trying to get to the California gold strikes after 1848 or they're trying to settle in Oregon and so these people are coming together, sometimes they know each other and sometimes they don't. Jumping off points were usually somewhere in Missouri—say, St. Joseph, Missouri—so they would form a wagon train of, let's say, 50-60 wagons. They'd find a wagon master, and again it would appear that it would be pretty hard to get all that organized, but they did form a government and they actually called it a local government. They wrote wagon train constitutions almost and so that was the agreement. I think the difference between that and what we think of as a government today is that it was very small and very small scale and the cost of exit was pretty low. If you didn't like a wagon train you could leave and go to another one, and just that opportunity of exit meant that government couldn't be as predatory as it often times is when government gets big.

**WOODS:** There's a discussion in here about establishing the rights to livestock. Now again, this is in a situation with a very, very limited government presence. You have a discussion in here about how rights to livestock were established and how roundup rules were established and how cooperation occurred in this way, so can you say a word about that?

**HILL:** Yes, there was at least some form of registration of ownership, and one of the first things that a territory would do before it became a state would be to establish a brand ownership system. There was a legal framework system in which you could register your brand, and once the cattle have a brand on them, then that belongs to that person. There was at least a regional or sometimes a statewide registration

system. For instance, I have a cattle brand, PJ, and that was registered by my grandfather in 1894 in Montana, and any cow in the state of Montana that has a “P” on the left rib and a “J” on the left hip belongs to me unless the person that has that cow has a bill of sale, and so that was part of the way of establishing property rights—just some ownerships and some people made marks that enabled those to be identified. They were generally recognized and it was considered bad form. There were some cattle thieves. They would alter brands and take the cattle and try to take them out of an area, but again there was a general agreement that there would be some bad actors around, but that the community established general rules that we ought to enforce property rights for each other. I think the overall idea would be in the West we saw lots of entrepreneurial activity, lots of productive activity and not a lot of redistributive activity.

**WOODS:** How did people resolve the inevitable disputes that must have occurred? Were there formal institutions for dispute resolution?

**HILL:** In most cases there were not formal courts. The things that we write about in terms of people coming together to form their own adjudicary mechanisms we find exist, and so in a mining camp, it was pretty costly to have someone be a sheriff. In a mining camp everyone wanted to mine, so if there was a dispute, a cry would go through the camp of claim jumper, claim jumper and people would rush to some designated gathering spot. They would empanel a jury on the spot and the person who was supposedly the claim jumper could make his case as to why he wasn’t and the other people would make their case as to why that person was a claim jumper. If the person was found guilty he was usually banished from the camp. It was pretty expensive to maintain a jail and to incarcerate them there but again, spontaneous institutions do arise to solve these sorts of problems. The same thing happened with wagon trains. There were questions of theft, and in some sense you could say they had almost a memory of, say, the British common law or something like that because there was a right to trial by jury and a jury of your peers, but those sorts of institutions came about fairly quickly whenever there were issues that had to be resolved.

**WOODS:** Now how about dealing with water rights out in an arid environment? Again it would seem like water rights might be tricky to designate and yet apparently that was done, too.

**HILL:** That happened most. It started in mining camps in California that it made sense to divert the water from the stream in order to engage in something we called washing gravel or to try to get the gold out. The water rights regime that the U.S. inherited from England didn’t allow any property rights in diverted water, so a brand new doctrine developed in the West called the doctrine of prior appropriation, and it allowed people to divert water for mining. Eventually that came about to also work for agriculture and that has worked quite well. Part of the problem is that states eventually adopted the doctrine, but in fact they froze in place the rules that were there once the states decided to take that doctrine up. So we now still have a lot of water rights conflicts, and most of that is because we don’t have regimes that allow water to be transferred from one place to another. That is often times because of state rules that prevent it.

**WOODS:** Now the overall thesis of this book is, as you realize, quite striking, especially to the lay reader. I have to say I am very curious to know—especially since the book was published by Stanford and it wasn’t published by Joe’s Publishing House, so that gives it a certain plausibility to the scholarly



reader—how it was received.

**HILL:** Reasonably well. We've had some disagreement about minor parts of it. People want to argue about—if you get a historian, they will argue about, “did you get the treaty date right,” on some particular part of it, but I would say that whenever we've been able to present our evidence, generally people have said, yes, it seems to make sense. Generally, also, if you talk with historians about any particular regime, like the mining camps or like wagon trains or like trailing cattle from Texas to Montana, I would say there is a pretty good consensus that what we have in there is correct. What people haven't done is try to draw that all together and say what does this tell us about government overall. How do you get government that works well and one of the ways you get it is by starting small and trying to keep it small, and I think that's where probably I think our lessons would be generally accepted by historians in most situations. But trying to pull all of that together with some sort of an understanding of institutions and how they developed is what I would say is the main point of the book.

**WOODS:** Well, it's obviously not a coincidence that you have an interest in topics like this and you also are a Senior Fellow at the Property and Environment Resource Center there in Montana. Can you take a few minutes to tell people about what PERC is and what types of things it's doing?

**HILL:** PERC works largely on research questions and environment and natural resource issues. We approach it from what I would call a free market perspective, which means we think property rights are important and getting incentives right is important. So much of our environmental policy in the US is what I would call top-down, command and control. We'll just tell people to not do bad things and we'll tell them to do more good things. I think it would be better to start from the bottom up and try to think about most of the issues as property rights issues. There are usually property rights conflicts when we are talking about environmental issues, and so we think a lot about where the incentives are wrong in terms of environmental policy and how can we go about getting them right.

**WOODS:** In a lot of states there are landowners who have had bad experiences with federal and environmental bureaucrats or the EPA. Does PERC help them out? Or does PERC instead do policy studies saying that maybe the federal government ought to take a different approach? What types of disputes do you see—especially in Montana—the federal government having with just your ordinary landowner?

**HILL:** A lot of these have to do with things like EPA regulations on land, water rights or water areas. We get a lot in terms of water rights disputes. We get involved in Indian policy, that's a big issue in Montana. We think a lot of the power has been taken away from the Indians on their reservations. We just had a conference finish up last week on that topic. Trying to give them much more control over their own destinies. The federal government owns a lot of the land here and has basically not managed it very well. Bureaucratic incentives often times stand in the way of good environmental policy, so we talk about those sorts of issues. We look at mining issues and all those sorts of things that we deal with.

**WOODS:** Can you tell everybody what the website for PERC is? I bet it's straightforward. I bet we can guess it.

**HILL:** It's very straightforward. Just Perc.org. We have publications, conferences, and programs for graduate and undergraduate students. We also publish a newsletter, so people can get on the mailing list and find out more about us. They just have to go to Perc.org.

**WOODS:** Well, I hope people will do that. I strongly recommend it. The book is *The Not So Wild, Wild West: Property Fronts on the Frontier*. It's a tremendous thing, I think, to be able to say that you were involved in a revisionist work that will forever change the way we think about a chapter in our history. What a privilege to be involved in a project like that and I hope people will rush out and get copies, and budding historians will see this is how it's done.

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# The Free State Project

## Guest: Carla Gericke

### November 21

*Carla Gericke is president of the Free State Project ([freestateproject.org](http://freestateproject.org)).*

**WOODS:** I want to talk to you—believe it or not—about the Free State Project. Now, in particular, before we get into some of the details about what’s going on these days, give us your typical pitch for the Free State Project, what it is and why it’s important.

**GERICKE:** Sure. The Free State Project is a mass migration movement. We’re trying to concentrate 20,000 liberty lovers in the state, the great state of New Hampshire. We’ve been around for about ten years and we’re really starting to pick up. We just announced that we have over 15,000 people who have signed up. The way it works is that when we hit that 20,000 participants number, people have five years to move to New Hampshire. Now in typical libertarian style, a lot of us decided not to wait.

We know this is a strategy that in fact is working, and so we have about 1,500 people who have already moved to New Hampshire. My husband and I moved out in 2008 and we’re really starting to see an acceleration of that. So really what we’re trying to do is to concentrate a bunch of smart people who get it, who can understand and see what’s emerging, together in one place and see if we can effect real tangible change within our lifetime. We picked New Hampshire because it’s a pretty free state. I know it’s up in New England and sometimes people are like “What?” But you know it really still is that last little bastion out here with a real live-and-let-live flavor to it.

**WOODS:** Well, I grew up about half an hour from the border of New Hampshire in North Andover, Massachusetts, and I love New England. I don’t think there would be anything at all keeping me from living in New Hampshire. I think it’s a wonderful place to live.

So you’ve hit this 75 percent mark. Now when I saw you at the Liberty Forum in February of this year—I think that was the first time you and I met—where were the numbers then? Has there been a substantial jump just in this year?

**GERICKE:** It definitely is accelerating. I don’t know what it was in February, but we have sort of seen a nice little acceleration. I crunched some numbers actually right before Liberty Forum.

Up to this stage, we've been an all-volunteer organization, which sort of gave the good things that come from that, but also the challenges. You know, all of us having other jobs and other things to do. I actually just went full time, so I'm really kind of hoping that we can accelerate it. Basically, back when you and I met at Liberty Forum this year, I had looked at some numbers and I figured if we do nothing, if we just kind of stay at the pace we're at, we will start to trigger the move in 2018, which would give the people the five years to move. And when I realized how old I was going to be by then, I thought: "No, let's get this party on the road. Let's really start to accelerate this."

And I did run an average depending on what's in the news and all of that, but between four to eight signers a day if we accelerate the triggering of the move to 2015, which will be three years earlier, we need to be running that to about eight a day, and sometimes we hit that and sometimes we exceed that depending on what's in the news. We just recently had an incident in Concord, New Hampshire, with the police chief there. The Department of Homeland Security decided the Free State Project together with Occupy New Hampshire and sovereign citizens is a domestic terrorist organization, so we were in the news a lot. Obviously we made quite a stink out of that. Just because you don't agree with policies of the federal government does not make you a domestic terrorist and we certainly are not that, and so we saw big signups when those kinds of things happen. In some ways, I love it when the state agents come out and say kooky things because it's good for us.

**WOODS:** Yeah. At the time I thought it was horrifying, but one of the best things in retrospect that ever happened to me was the *New York Times* attacking one of my books. Why would I think that was a bad thing? That was a great thing. So the same principle definitely holds with you guys. It is free publicity, for one thing. Plus, anybody who is politically awake at this point knows that 99 percent of the time when they throw around these terrible smears, usually the people on the receiving end of those smears are pretty good guys. We kind of know: "Oh, wait a minute, these must be some interesting people. Let me check them out." I want to ask you some other things about the Free State Project that I've been curious about. For one thing, and I think I was intending to ask you this on the Peter Schiff Show and then it turned out that I wasn't hosting that day, but I always wanted to ask you: It seems like there's a race going on in the Free State Project. On one hand, we want to get liberty-loving people to New Hampshire quickly so let's get moving and see if we can carve out liberty for ourselves in our lifetimes, as you say. On the other hand, you have all these idiots in Massachusetts who have screwed up Massachusetts. Massachusetts doesn't work anymore so they want to get out, and now they want to move to New Hampshire. They'll screw up New Hampshire and they also won't know why New Hampshire won't work at that point. One good thing is that the 1,500 Free Staters are also active. It's like having 15,000 regular people. But still, how do you stave off this danger of society-wreckers from Massachusetts coming in and doing the same thing in New Hampshire?

**GERICKE:** I think that it is a bit of a challenge. I've actually heard studies, I know they do one out of the University of New Hampshire where they said although the perception is that the—as I fondly like to refer to them, Massholes—come over to New Hampshire and then there's this "let's increase the state" attitude, but for the most part, according to that study—I can look it up and email it to you—but they said even though that's sort of the word on the street, that's not really practically what happened.

I certainly know based on the people who I've met who have moved, escaped from Massachusetts and Connecticut and certainly many of the New England states, really the people who do come, they're not looking for that level of services. I think it's a little different down south from the border. Some of the ways I think we can address that is we have some activists who do run and who do engage in the political process and I'd love to see some of the business taxing change here. I had to go into Boston this morning and that commute—I left here at five and it took me two hours to get to Boston, so it's all the people living in New Hampshire taking advantage of what makes the state great—you know, no personal income tax and sales tax and all of those good things—but then they're going down to Boston for the economic reasons. And I'm like, okay, let's get some more Free Staters in the state house or awaken the liberty lovers that are already people who are native to the state and let's reduce some of the business taxes here and maybe do something, maybe some great favorable tax break. You know if you start a software company here, I would love to see us build. There's so much potential here. There are economic incentives we can use. There's just educating people and then ultimately it's just put your foot down. No, you don't get to get those excess services and no you don't get to come and spoil what makes this a great place to live.

**WOODS:** Tell us about some of the victories that you have had. In a way it's kind of an unfair question because the move hasn't been triggered and although people have moved there anyway, not in the numbers that will occur once the move is triggered. But it does seem that in the short run there have been examples of things that have happened in New Hampshire because you guys were there.

**GERICKE:** Sure. I would say Free Staters do things on three fronts, if you will. People come and they run for office and get on school boards and sort of use or work with the system. And then we have the business free-market folks and then we have the civ-dis [civil disobedience] folks. But I would say on the legislative front, the big ones that spring to mind are individuals worked for same-sex marriage, so that was a big win. New Hampshire is the only state that now has enshrined jury nullification, which is where the jury is supposed to be able to say, "Yeah, we think this guy was guilty, but you know what? We think it's a dumb law so we're not going to put him in jail." In other states the judge sort of has the discretion to know about that, but in New Hampshire now it is actually enshrined and it's enshrined in a way where the defense attorney, or if you're doing *pro se* if you're representing yourself, you're allowed to directly address the jury and go, "Hey, I think this is a dumb law and you guys shouldn't find me guilty." So that was a big win. In terms of budgets, in 2010 when it was a Republican House and New Hampshire is one of those purple states where it's mostly independent, so it swings blue, red, blue, red and that sometimes confuses people who are interested in the free state because they'll see the last cycle and say, "Well it went blue," and it's like, "yeah, don't sweat it. It will go red next time." People just kind of like that independence here. So those are some of the examples. Legislatively, with the budget in 2010, they actually cut the budget, real cuts, not the funny-money cuts we tend to see on budget, but a billion dollars, it was 11% line-item budget cuts. So those are some of the successes.

We would certainly love to see more people come, more people get active. I've heard a number kicked around that said in the state of New Hampshire there are about 8000 people who are really politically active. And for the most part we're talking about status and they work with the unions and that whole

cycle of nonsense, so if we trigger the move and we have that influx, I really do think we can start to see dramatic inroads on a lot of the liberty-loving things that we love and that we want to see implemented so we can show people these ideas actually work.

**WOODS:** Carla, this may be a sensitive subject, but where would be the fun in not asking sensitive questions? I want to know about the relationship between different sorts of people under the Free State Project umbrella. There are some people who indeed want to engage in political activism and get into office and try to change things that way, but there is also, particularly in Keene, a very apolitical or anti-political strain that wants to achieve liberty in our lifetime in their own sort of way. Is this a kind of friendly relationship, is it hostile or is it, “You do your thing and we’ll do ours,” or what’s it like?

**GERICKE:** Well you know, as Ron Paul says, freedom is messy. We’re big-tent and different people use different tactics. What I’ve been seeing over the time I’ve been here, the seven years I’ve been here now, is back in the day, there was sort of “My way is the right way, my way or the highway, so if you use the political system and I’m a devout anarchist, your way is wrong.” That has really changed. A lot of the Keeniacs are running for office now. They run, there was a Keeniac who ran for mayor and he got 13 percent of the vote in Keene, which is a college town and very liberal. So the one thing we as libertarians have sort of agreed on is sort of live and let live, and so we take the approach that the Free State Project first of all is just bringing the people here and once the people are here they do what they want. I started phrasing it a few years ago as there are these different approaches you can use. You can use the system or work outside the system or bring your business and work with the free market, and that seems to have taken off. And I think maybe when Ron Paul ran last time, New Hampshire was the first primary state, and he actually came second in both the Democratic and Republican primary here, so he had a good showing and at that stage people were sort of like, “What, you’re going to vote?” and I was like, “Yeah.” First of all, it’s a primary and second of all it’s not going to work, I don’t think the approach here is going to work if everyone moves here and they don’t vote. We really tactically should be trying all of those approaches. So I think what we’re creating in New Hampshire with the Free State is a marketplace of ideas where people can come and we can compete. If someone can show me that civil disobedience, and it often times does, attracts more media attention and that’s good to get more signers and I’m all for it and we’re not here to police people. Let everyone’s ideas compete and let’s see what works.

**WOODS:** Well, I’m glad things seem to be going well for you guys, with 15,000 people pledging to move. I mean, it’s not a small thing to uproot yourself and move to New Hampshire even though you know you’re going to have a lot of friends greeting you there. It’s not an easy thing to do. That people are willing to do this testifies to the level of our commitment, but as you say also to the fact that we see the you-know-what is hitting the fan and you’ve got to put your foot down and do something about it. Any last thoughts before we let you go?

**GERICKE:** No, thank you for having me. I don’t know if you’ll be around in February, but if you are we would love to see you again at Liberty Forum and if not, then I think this is the year you should come to PorcFest.



**WOODS:** We will see, but just a few weeks after, you can never know the exact date, but just a few weeks after Liberty Forum we are expecting another child, so I'm going to be sticking around at home around that time, but I hope you guys have another successful event. I could not get over the size of the crowd, the composition and enthusiasm and knowledge base of the crowd, all the different vendors that were there. I mean, that was just a tremendous time, so if you're anywhere near the area, and you need some good liberty companionship and you just want to have a good time, the New Hampshire Liberty Forum is definitely the place to go. So FreeStateProject.org is the Free State's website and then tell us again what the Liberty Forum website is.

**GERICKE:** It's NHLibertyForum.com.

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# How to Do Economics

## Guest: Danny Sanchez

### November 22

*Danny Sanchez is director of online learning at the Ludwig von Mises Institute (Mises.org).*

**WOODS:** I want to talk today about the method of Austrian economics. Is it unscientific? What is Mises' method of doing economics? And is this some kind of oddball method that only a weirdo would use?

These are the sorts of things that come up on the Internet quite a bit, and you get the sense that a lot of people talking about it probably haven't read Mises' epistemological works. You get the sense that they've learned it from three sentences they saw quoted by some guy one time. So I wanted to get you on here, because you've written about this so effectively.

Let's start from the beginning. What is the nature of the dispute? What is this argument all about when it comes down to what Mises believed, or how Mises believed the economist should pursue his craft? What's different between Mises and what the sort of man on the street might think is the way an economist should operate?

**SANCHEZ:** Well, you mentioned "scientific," and that reminds me of a funny thing that happened a couple of years ago. Tom DiLorenzo went to testify to the House Subcommittee on domestic monetary policy, and Congressman William Lacy Clay accused Austrian economics of lacking what he called "scientific rigor," and the reason for that was, he said, "It uses deductive reasoning." So, I think it's so funny, this McCarthyite-type situation where he's saying, "Is it true, sir, that you are part of this group of people who use—dum-dum-duuum—*logic*?"

**WOODS:** We can't have that! So, in other words, it's a question of deductive versus inductive reasoning, and a question of which type of reasoning is appropriate to a given discipline. And the question that Mises is trying to answer is: which approach makes more sense for economics? The approach we would use in geometry and in legal theory, for example? Or is it better to try to gather data in the scientific method sort of way, and go into economics more or less agnostic, and then see if we can derive general principles from observing empirical data? Is that more or less it?

**SANCHEZ:** Yes. You mentioned geometry, and that's a really important comparison. People often will

say, well, if you are not subjecting your proposition to these two empirical tests, then that's a dogma. That's a religion. I wonder if they would accuse geometry of being a religion. I mean, geometry also doesn't put its propositions to the test of experiment, and of experience in general. Geometry is what is called an aprioristic discipline. That's kind of a strange word, it means that the theory of geometry logically deduced is prior to any kind of experience. So any kind of experience with measurements of objects in reality—Euclid's *Elements*, all the system of geometry logically deduced, doesn't depend on the measurements we take of real-world objects. And they can't be invalidated by such measurements. And that is not a controversial idea. It's not just Austrian surveyors and Austrian engineers who treat geometry as prior to dealing with real-world objects. So, it's not to be just laughed out of court just because it's considered prior to experiment.

**WOODS:** So, in other words, nobody would say, “Hey, you dogmatic geometer. You're telling me you believe that the sum of the squares of the two sides of a right triangle equals the square of the hypotenuse and you haven't measured a single triangle to verify this? What's the matter with you?” Nobody would act that way. Nobody would be, frankly, stupid enough to act that way. So we all see that an empirical approach to geometry makes no sense and is ridiculous and fails to understand the nature of geometry. But what would make us think that the nature of economics is such that the method would be similar?

**SANCHEZ:** There really isn't any good reason to think that because the contrast to geometry is the method applied to the natural sciences, and in the natural sciences, the phenomena that they're describing are characterized by regularity. But human action is not characterized by strict regularity where, just because you see a phenomenon happen in certain conditions in the past, it necessarily must happen in the future. So, Mises showed how the character of economics is more akin to geometry, especially because just as with geometry, there are certain implications that are bundled up in these basic concepts that everyone introduces into their reasoning.

**Wood:** All right, let me jump in here. This is a good starting point for the whole analysis. Mises uses the term “*a priori*” or “synthetic *a priori*”—that we can have a statement that's meaningful and yet that we can know prior to all experience. The action axiom is supposed to be an example of the synthetic *a priori*. So can you explain that?

First of all, what's the action axiom, and what do we mean by calling it an example of a synthetic *a priori* statement? And, by the way, to the people listening today, you had no idea how awesome this podcast was going to be, did you? Now you're learning about synthetic *a priori* statements. I mean, people are just going to love you now.

**SANCHEZ:** Well, an *a priori* statement is something that is prior to experience. And calling it a synthetic *a priori* statement basically is getting toward the fact that it applies to something in the real world. And that is something that is characteristic of Austrian economics, as opposed to certain other schools of economics, that it's very realistic, that it does apply directly to the real world.

Now the action axiom basically is that human action exists, or that man acts. And actually a funny thing

that not many people are aware of is that Mises himself never used the phrase, or the term, action axiom. He never posited it as a proposition that man acts. He called it the category of action. So he focused on the concept itself, of action, and what can be logically deduced from even thinking in terms of action in any case. And so, what can be unpacked from the concepts of action? Every thinker and social scientist—of all schools, not just the Austrian School—introduces concepts, especially action, that have certain implications that necessarily follow from them.

A lot of people challenge critics of Austrian economics and critics of the free market by starting off with, “Okay, well, do you think man acts?” And then the conversation gets sidetracked in all these sort of meta-philosophical objections and ruminations on the rationality of man. But really you don’t even have to put that proposition to them. You can just point out that your opponent, in his own discussion of human society, is himself positing action. If he is positing action, then he has to accept the logical implications that necessarily come from action.

So, for example, there are certain things without which the idea of action would be incoherent. For example, time. Try to think of an action that doesn’t involve time. The human mind cannot even fathom such a concept, and so time is a logical implication of action. Also, the notion of imperfect conditions in light of the actor’s judgment—that if a person didn’t think that conditions would be imperfect without his intervention, he wouldn’t act. The very notion of a person expecting perfect conditions, with or without his intervention, who then acts anyway—you can’t even imagine why such a person would act. So these are some basic logical and necessary implications of action, and any social scientist who even discusses in terms of action, to be even logically coherent, has to accept these implications.

**WOODS:** Let me mention some other implications of the action axiom, which says that man acts, or, in other words, that people have goals, and use means to pursue those goals. There are very clear economic implications of this statement that everybody can understand. For example, costs exist. Every time I act, I’m implicitly setting aside other things that I might have done instead. So if I sit on a park bench and eat a ham sandwich, I am setting aside flying a plane at the same time. I am choosing and setting aside. In choosing and setting aside, in turn, I’m demonstrating that I prefer one thing over another, and this gives rise to the idea that there are value scales in my mind. I have a video online in which I start with the action axiom and I end up showing people how supply and demand curves are derived, where the law of marginal utility comes from, and it all just comes from explaining the implications of the seemingly uninteresting statement that human beings act.

**SANCHEZ:** Exactly. Mises argued that all means, or you could also say “goods,” are necessarily scarce. And by scarce he means that the quantity available of the good is outstripped by the goals that a person has in mind for it. So the very concept of using something that is scarce necessarily implies, as you said, the notion of pursuing some ends and leaving other ends unpursued. So action with regard to scarce means necessarily involves choice, pursuing some ends and setting aside other ends. And a further implication is that when a quantity of a good is lost to the actor, then the actor will sacrifice certain ends, certain goals. Now, the goals that are sacrificed are, by definition, valued less than all the goals that he does not sacrifice. And from this reasoning, a thinker can deduce the law of marginal utility. And this

law is bound up in the very notions of action and means and scarcity. And you can derive—and as you said, you derived it in your lecture, and that’s what Austrian economists are basically doing.

**WOODS:** Now is this some freakishly odd thing that only Austrians do? Can we find in the history of economic thought—I realize I’m stacking the question—that this was the mainstream approach to doing economics until quite recently?

**SANCHEZ:** Yes. Mises argued that throughout the history of economic thought, basically the message that the economists largely pursued—even though in their writings on methodology where they’re talking about methodology, they don’t necessarily endorse it—but in practice the kind of reasoning that they were doing is theoretical reasoning like we’re discussing here. And there are examples of some economists prior to the Austrian school that actually were pretty much explicit praxeologists. So praxeology is this idea of just theorizing from the basic concept of action. Murray Rothbard covers some of these examples in his *Austrian Perspective on the History of Economic Thought* treatise, which is a fascinating read.

You might also think that a lot of this is just very vague and very general, so, okay, if you just think about general concepts of action, then you come up with very, very general conclusions, but how does that help us in studying the complex world, where it’s not just that people are acting, but that people are acting in certain ways? But that’s also part of praxeology for Mises, because what we need to do then is think about certain modes of action. And so we need to restrict our notion of action by certain assumptions. And we think of different ways in which people can act.

So, for example, people can think of interpersonal exchange. That’s not a property of all human action, but you can imagine a Robinson Crusoe just sitting on this island, and he has no one to exchange with. But you can posit certain assumptions about what you’re theorizing about, and you can say, okay, let’s say that there’s another person, let’s say that Friday is on the island with him. And they can interpersonally exchange. Just thinking about that restricted kind of action necessarily has certain logical implications. So, for example, one logical implication is that both Crusoe and Friday mutually benefit or expect to mutually benefit from the exchange, because if they didn’t expect to benefit, why would they perform the exchange? By definition, they expect to benefit. So that’s one thing that you can know, just from the very concept of exchange, that must be true. And then, as you said you do in your lecture, you could take the concept of exchange, apply the law of marginal utility to that, and then, for example, derive the law of demand. And you can use that kind of reasoning to construct price theory and then use the reasoning of price theory to construct a profit-and-loss theory. And so this is the way Austrian economists operate.

**WOODS:** Now what about this kind of objection: “This sounds fine and everything, but the real problem with you Austrians is that you’re so dogmatic in your beliefs because of your so-called praxeology and your deductive reasoning, that you won’t even admit statistics into your analysis. I mean, really, what kind of thinker doesn’t even use statistics?” Now, is it true that Austrians just belligerently refuse to use statistics? What exactly is the relationship between Austrians and statistics?

**SANCHEZ:** Well, they do use statistics for economic history. They don’t use statistics to support their

theory, but they use theory in combination with statistics to understand what actually happened in the past. And so this gets at the comparison between geometry and economics. Let's say a geometry teacher assigns you the task of determining the measurements of an archeological ruin. And this part of this ruined building happens to have the characteristics of a right triangle on one of its faces. And now let's say that you are able to directly measure only certain parts of the ruin. And the geometry teacher assigns you the task of using the theorems of geometry to derive the other measurements. Now let's say that you do that, and you find out that the measurements don't jibe with your understanding of the Pythagorean theorem. And you return to the teacher to denounce the orthodoxy and dogma of Pythagoras, and to proclaim your heterodox rival theorem about right triangles that is based on your measurement of this ruin.

Now that is akin a situation in which an Austrian economics teacher asked you to gather statistics to help you in economic history, but then when you gather your statistics, you decide that you think that this doesn't jibe with Austrian economic theory, and so you go back to your teacher and say, I am denouncing the orthodoxy and dogma of Mises and Rothbard, and then you try to have your own alternative theory just based on your statistics.

Now if you think about the way that every geometry teacher would respond to that student, it gives you an idea of the way that an Austrian economist would respond to a similar student. There are a few fundamental errors the students may be making. Maybe the geometry student doesn't actually know the Pythagorean theorem. Maybe he tried to derive it in a certain way, and he messed up. He didn't reason correctly. And so he thinks the Pythagorean theorem is that  $a^2 + b^2 = c^3$ , for example. So that's why his measurements don't jibe with what he thinks of as the Pythagorean theorem, because he doesn't actually know the Pythagorean theorem. He derived it incorrectly. So, let's say that he actually measures the artifact accurately, and from his measurements, he finds out that in that one case,  $a^2 + b^2$  did equal  $c^2$ , well that gives him a clue that his reasoning was faulty. But those measurements themselves do not substitute for correcting the reasoning itself. You can't just say I know now that  $a^2 + b^2 = c^2$  because I did these measurements. What you have to do is use that as a hint and go back to your desk and your pencil and paper and then derive the correct Pythagorean theorem using validly reasoned proofs.

Now the parallel to that is an Austrian economist who doesn't know the correct theory, and in trying to derive his own theory he reasoned incorrectly, and so that's the problem, and that's why the statistics don't jibe with his theory, because his theory is wrong and he needs to correct his theory through re-reasoning it. He can't just rely on statistics.

Now another possibility is that it's not a right triangle at all, so maybe the Pythagorean theorem doesn't even apply. Maybe it's even irrelevant to the situation that he's considering. And so that would be equivalent to applying an irrelevant theory to a certain economic set of statistics. So maybe if you, for example, try to apply the theory of economic calculation to a barter society. It doesn't even apply because economic calculation applies only to a market society, for example.

So, basically what that means is that every logical proof has premises and a conclusion, but the conclusion is only certain if the premises are given, and so his problem with the fact that he's not even dealing with a



right triangle, is that the premises involved in the Pythagorean theorem aren't even given in this situation. So, of course, the conclusion of the Pythagorean theorem doesn't apply to this particular situation. And, finally, another possibility, of course, is that the student just mis-measured. So the student just had human error in trying to take the measurements of the artifact, and that's similar to just bad economic statistics.

**WOODS:** Well, Danny Sanchez, we're just about out of time, so I appreciate your guiding us through what may seem tricky to the beginner, but, if you read Mises's stuff on this, it's not actually impossibly difficult to manage. On the TomWoodsRadio.com site next to this particular program, we're going to make sure to link to your articles, specifically on Mises on mind and method, which will help people understand these sorts of things and then sort of inoculate themselves against some of the ill-informed attacks that you might encounter online from time to time.

So, Danny, thank you so much for being here.

**SANCHEZ:** Thank you, and just to mention that in that article, the ideas that I reference in this interview, I link them to particular quotes in Mises's works, where he makes these points.

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# Is ADHD Overdiagnosed?

## Guest: Enrico Gnaulati

### November 25

*Enrico Gnaulati is a clinical psychologist with over 25 years of experience providing psychotherapy to children and families. His book is called [Back to Normal](#): Why Ordinary Childhood Behavior Is Mistaken for ADHD, Bipolar Disorder, and Autism Spectrum Disorder.*

**WOODS:** Let's start off with ADHD, one of the disorders discussed in your book. Now you don't claim that ADHD is a made-up disorder that doesn't really exist. It does exist, so can you tell us first of all what it is, what a genuine case of it would consist of?

**GNAULATI:** It's a good way to start because, yes, I'm not a romanticist or a *polemicist who wants to throw out this diagnosis*. In my estimation, true ADHD has to do with the functional levels of impulse control. To wait your turn, being able to follow directions, stay in your area, just stay calm in your body to the point where you can pay attention for expectable periods of time in the classroom, for instance.

*If you're motorically driven, where you're just constantly moving around and constantly on the move, where it's just disruptive to you and everybody around you, and it's resulting in real problems in a child's life—in other words, it makes them extraordinarily hard to parent and extraordinarily hard to educate—that's kind of, in everyday language, how I would define ADHD.*

**WOODS:** Now we've seen an explosion in the number of cases, as you point out in the book. You say that in a typical American classroom there are nearly as many diagnosable cases of ADHD as there are of the common cold. So given that we've seen this extraordinary number of cases, is this in your judgment a reflection of the fact that there simply are more people who have ADHD, or is it the diagnosis itself that has exploded? Are people being overdiagnosed, and if so, why?

**GNAULATI:** I would say that, yes, it's being massively overdiagnosed. In the past ten years there's been a 41 percent increase. Actually, a little known statistic is a very revealing one: in the wake of the No Child Left Behind Act, the implementation of it in approximately 2001, within four years there was a 22 percent increase in the number of cases of ADHD throughout the country. And so partly it's the reason it's being overdiagnosed.

And I would say, just parenthetically, it is being overdiagnosed because we know from an NIMH study that 75 percent of kids who are diagnosed with ADHD no longer meet the criteria by the time they hit their mid-20s. ADHD, in my estimation, is probably a lifelong debilitating condition that you don't just somehow or other shed in your mid-20s. So my argument would be that it's being massively overdiagnosed partly because of new educational demands being placed on children in the school systems at younger and younger ages. And it's the children on the younger end who are the most vulnerable to being inappropriately diagnosed.

**WOODS:** So do you think it's a case of kids being asked to do things that correspond more to more mature years; and some kids just don't want to do these sorts of things? It doesn't correspond to normal childhood activity and so the response looks to the superficial observer like ADHD.

**GNAULATI:** I think that's partly true. And I would say though, Tom, it's not because kids don't want to meet the expectations that are being placed on them in the classroom. It's because it's developmentally out of reach to them.

**WOODS:** Okay.

**GNAULATI:** They can't do them. In kindergarten, for instance, you're looking at a situation right now where there's one study that I address in my book *Back to Normal* that shows that probably upwards of a million kindergarteners have been inappropriately diagnosed with ADHD just as a function of their being on the younger end of the classroom, and the inappropriateness of the academic demands being placed upon them. And so there's good scientific evidence out there right now to call attention to this phenomenon.

**WOODS:** Now, what are the real dangers of an improper diagnosis? I mean, okay, so you get the wrong diagnosis. Well, probably people get the wrong diagnosis about a lot of things. What's especially problematic about being improperly named as somebody who is suffering from ADHD? Is it because now you'll be put on a medical regimen that's inappropriate for you? What are the problems?

**GNAULATI:** Well, that's one of them. Especially with a diagnosis like ADHD, where oftentimes the diagnosis and the medication are sort of hand-in-glove. Now one of the downsides to that, or one of the risks to being inappropriately assigned a diagnosis of ADHD, would be that that child then has to suffer unpleasant side effects possibly. And with ADHD meds, more often than not there are unpleasant side effects.

The most robust study that exists out there, the multimodal treatment study on ADHD, is a long longitudinal study. The eight-year mark has found that medicated ADHD children, for instance, are two centimeters shorter and 2.7 kilograms lighter than children who are not medicated. So there can be growth issues with these meds. There's another study I look at in *Back to Normal* that shows that medicated ADHD children get about an hour's less sleep a night on average. There have also been heart irregularities associated with these meds. So there's the inappropriate taking of medication and the side

effects that go along with that.

There's also, with a diagnosis like ADHD—it can, over time, if it's inappropriately applied and the child and everybody in the child's life believes that it's actually an appropriate diagnosis—oftentimes what happens is there's a self-fulfilling prophecy, the children learn to believe that they're incapable of certain things: finishing tasks, being organized, getting places on time, and so on and so forth. They think that they have a brand that disallows them to take responsibility or disallows them to develop capacity to just perform and complete everyday childhood tasks. That's another downside.

And then finally I'll end with this thought: there's a study that shows that about a third of Americans currently think that an ADHD child is a dangerous child. So, still in our culture, even though we're very casual and folksy about talking about ADHD, bipolar disorder, and autism spectrum disorder in children, publicly we're very casual and folksy and bracing in the way we talk about it, but for any mental disorder that's assigned to children privately, the average American thinks that that child is a dangerous child whatever mental disorder applies. There's still strong stigmas attached to these disorders in our country.

**WOODS:** Right, so it's a difficult burden to carry around with you, especially when, as you say, it can become a self-fulfilling prophecy, and then you're somebody everybody wants to encourage their own kids to avoid. And then it snowballs, I would think.

**GNAULATI:** There you go.

**WOODS:** At one point you talk about childhood narcissism, and you say that this is a phenomenon that can account for some of the symptoms that we wrongly diagnose as ADHD. So what is childhood narcissism, for the layman?

**GNAULATI:** Good point, and in my book I really break it down. For instance, there are many kids who are just overconfident, who believe that they should just know things without having to learn them. They have a big belief in themselves and their own ability that doesn't square with reality. And that's a normal, to varying degrees, childhood tendency. I would say narcissistic tendency.

But to the extent that that overconfidence is sort of conditioned by the important adults in a child's life, that could lead to a child being so overconfident that they under-plan, under-prepare, under-practice. They just think that they should be capable of achieving certain goals; and so their performance breaks down in school. They don't memorize things that need to be memorized, so they become forgetful. They don't rehearse what needs to be rehearsed in their head because they're overconfident, so they become forgetful. And so that would be one normal childhood narcissistic phenomenon that can mimic an ADHD symptom—some of the forgetfulness and academic underachievements.

But it's also really hard to differentiate, I think, between true high productivity and a child just having narcissistic needs to be in the spotlight. Where they're always willing to call attention to themselves because they're used to getting either too little attention at home, like they're under-indulged or over-indulged at

home. Too much attention. So much so that their own childhood narcissistic needs to be heard and seen and appreciated get acted out in the classroom, where they over-talk or they brag, they boast. They may even act out because negative attention is better than no attention at all, for narcissistic reasons, not for ADHD reasons.

So these are a couple of narcissistic phenomena that sort of mimic ADHD symptoms; but I really break that down in my book in ways that would help the average parent or teacher tease apart what is just childhood narcissism versus evidence of a disorder like ADHD.

**WOODS:** That brings up a good question. You do have a chapter specifically for parents here – the whole book is in some way for parents.

**GNAULATI:** Yeah.

**WOODS:** But what do you advise a parent to do who gets a diagnosis of – you cover several disorders, we'll try and get to the others in a minute – ADHD for a child? What's the next step? Is it a second opinion? Is it trying to diagnose the child yourself, which seems kind of difficult? What should the parent do?

**GNAULATI:** First, in terms of trying to figure out if the diagnosis is accurate or not—you know, the ambiguity comes into play in the mild cases. And I think that's the problem in our culture right now. It's mild cases that are getting diagnosed more and more; and the line between a mild case of ADHD and a struggling child or a slow-to-mature child or a child under transitory stress, is a really thin one.

So I would advise parents first off: if a child is ADHD-like at home but not school or at school and not home then the diagnosis probably doesn't apply. So, in other words, it would have to be with these sorts of ADHD-like symptoms that are occurring pretty much everywhere in a child's life and getting them into trouble that are making them difficult to parent, difficult to educate. And therefore, if that's the case, then there is not a whole lot of ambiguity, and a parent can enter the mental health system in the school system thinking, "Maybe my child does have this thing called ADHD, and I need to be open to the kind of interventions that work with that." But if it's a child who sort of goes through phases like in one teacher's class they interrupt, they're squirmy, they get in trouble, they underachieve, they act out—but in a different class the teachers are reporting none of that or very little of that—then we're talking about something other than ADHD. Then the door opens to all sorts of other childhood phenomena that I address in my book that could better explain these tendencies.

**WOODS:** Now when you make these claims about overdiagnosis of ADHD, I think you have a lot of support among the general public. I think the general public often is cynical about the whole phenomenon of ADHD because they feel it's being overdiagnosed.

But in your book you go on to talk about bipolar disorder and also autism, where I think people might be less likely to say that there's overdiagnosis going on. Now where would be the fun if we only dealt with the low-hanging fruit? So let's talk about autism. So again, just for the layman: we sort of know

autism when we see it, but how does a professional know autism?

**GNAULATI:** Well, that actually is a more difficult question to answer than you would think. I mean, maybe I should talk about autism based on my own experiences and biases. I see true autism as a serious, debilitating lifelong neuropsychiatric condition that oftentimes involves little or no language development. Forty to 70 percent, depending on the study, of autistic children are mentally retarded. Forty percent of children with autism have seizures—serious seizures. There're extreme, bizarre behaviors in terms of repetitive behaviors, spinning around and around on a seat, needing routines like scripts, a routine for everyone in their life to follow, like being, you know, put to bed with a certain ritual. If you don't follow it to a T it can lead to massive tantrums. So we're talking about extreme behaviors.

True autism is something where there's very little ambiguity, and pretty much the professionals and the parents know that it applies. What has happened right now is it's the mild cases that have inundated the system. Kids who do have language development, kids who may be extraordinarily intelligent in certain areas, but have extreme social difficulties, extreme troubles reading social cues and playing along, appearing to not have empathetic responses to other kids around them, like they're in their own world, like they're cold and heartless. These types of phenomena are usually associated with the milder cases. But it's very, very difficult to tease apart, especially during the toddler years, which are the years where it's most commonly diagnosed these days. It's very difficult, in my estimation, to tease apart what is evidence of mild autism versus what is a difficult toddler, especially a boy. And that's a whole separate topic right there, about how boys, in my estimation, are being overdiagnosed and inappropriately diagnosed with mild autism.

**WOODS:** Now if that's the case, where is it coming from? I mean, are the professionals not getting the proper training? Is the training itself at fault? Is what's being taught in the medical schools wrong? Where's the error coming in? Why is this suddenly happening? Why is there suddenly such a grave amount of error in diagnosis here?

**GNAULATI:** It's a good question. And I think it's complex, the cluster of causes to explain it. But I think that you just named one of them right there: that when you look at the education training of health and mental health professionals—and given that I'm a psychologist myself it's disconcerting for me to admit this, and it's true certainly of my own education—these days most health and mental health professionals do not have a background in child development. And what little background they do have in child development is usually the textbook sort. The average health and mental health professional doesn't have a good, clear, palpable, concrete sense of how a normal child behaves under stressful circumstances that will allow them to tease apart what is evidence of that versus a mild case of ADHD or autism or bipolar disorder.

Believe it or not, there's one study that I quote in my book that shows that 40 percent of pediatricians—and pediatricians are the professionals most likely to diagnose ADHD in the country right now—that 40 percent of them calling themselves pediatricians haven't even done a residency in pediatrics, let alone have a background in pediatric mental health, or, for that matter, child development. So yeah, the



education and training of health and mental health professionals is one factor for it.

Another factor has to do with our insurance systems and how they're set up. With cost-cutting, the rationing of care, and the insurance system—it's led to a lot of professionals seeking to maximize coverage, engaging in what's called upcoding. In other words, if there's a question in terms of whether or not a child meets a diagnosis, more and more professionals are assigning them that diagnosis in order to ensure that treatment gets covered. Even though a child may enter the office where they're struggling and they do need help but they don't really need a diagnosis, if you don't assign them a diagnosis, especially a severe one, their treatment won't be covered. So it's almost like the tail wagging the dog there that we're seeing more and more going around in the system.

**WOODS:** Do you get a lot of positive feedback on a thesis like this from people in your profession? Perhaps some of them want to have their names withheld, or they may say to you secretly, "Yes, I know this is a big problem but I certainly don't want to go on the record about it." Is there a minority of people out there who professionally agree with you and who want to see some type of reform or are you a voice in the wilderness?

**GNAULATI:** You know, I think it's fellow professionals and colleagues telling me in private that they're not willing to go public themselves. There's that. But I can tell you the response to my book has been enormous and mostly from parents and teachers throughout the country and even internationally. I mean, the response to my book has actually been overwhelming and surprising to me; so it makes me think I've really touched a nerve out there in the country right now, in terms of just how out of sorts the system is with respect to overdiagnosing these disorders.

**WOODS:** Well, if you say there is an international dimension here, is it nevertheless the case, as far as you know, that this phenomenon of overdiagnosis is at its strongest in the United States? I'm just taking a wild guess, yet I have a funny feeling I'm right.

**GNAULATI:** You know, you are right. I actually had a journalist from Ireland call me, wanting me to comment on the Irish system, which I know nothing about. But she said, "We have the opposite problem over here, where kids who truly do have autism, the parents are seeing it as eccentric behavior, a developmentally delayed behavior or this, that, and the next thing, when clearly it's autism. So we have the opposite problem in Ireland than you do in the U.S." So I think you're onto something there, Tom.

**WOODS:** Well, how about that. I wish I had some cultural explanation. I'm sure there's a Ph.D. dissertation in there somewhere: why this happens in the U.S.

Dr. Gnaulati, I appreciate your time. I want to urge everybody to read your book, *Back to Normal*, and to visit your website – [www.gnaulati.net](http://www.gnaulati.net) – for more information.

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# Foolproof Thanksgiving Turkey

## Guest: Heather Woods

### November 26

*Heather Woods is the mother of five daughters (four as of this episode), and is married to Tom.*

**T. WOODS:** I went through a lot of my life eating turkey at people's houses, and it's super dry and you have to drown it with gravy even to make it edible. What are those people doing wrong? Or maybe a better question would be, what is the secret to not making it come out that way? What is it you're doing that every single time you prepare turkey for us, Thanksgiving or otherwise, it's been great, it's delicious? It's moist. It's the way turkey should be prepared. How are you doing this?

**H. WOODS:** Actually, growing up, when we had turkey on Thanksgiving, we thought it was normal for it to be so dry that it would shred when you tried to carve it. So, we never realized that's actually not a good thing, which is probably why most of us didn't like turkey. So then, fast forward, we got married, and I took a cooking class on just basic cooking things, and one of them was how to make a citrus chicken, I think. And that turned out so moist that it was kind of icky, so I thought it would work really well with a turkey.

So, basically, what you want to do with a turkey is you want to buy one that's no larger than twelve to thirteen pounds, because if it's larger than that, they tend to dry out because of the cooking time that's needed. So, about twelve to thirteen pounds. You want to get one that's not frozen, if that's possible. If it's frozen, it actually kind of deteriorates the quality of the meat as it's thawing out, and then you have to recook it, and it's just too much on the proteins. So you want to get a fresh turkey, and you're going to get it home and get it to room temperature, if you can, and stuff it—but not with bread.

**T. WOODS:** Ah! What are we putting in that turkey?

**H. WOODS:** You're going to take extra virgin olive oil, three oranges, and three yellow onions, and you're going to quarter the oranges and the onions. Then you'll take the oranges and squeeze the juice all over the turkey. Then you're going to stuff the rinds into the cavity itself and mix it with thyme and rosemary and salt. You throw that all in there. Put some olive oil in there. And then you basically do the same to the outside of the turkey, where you are infusing flavors, and you want to use, most likely, dried thyme and dried rosemary. But before you use those, you'll need to release the oils that are in there.

Either you need to grind them up, or roll them between your fingers, or anything that sort of breaks them up and allows the oils to kind of come out, which will give it a deeper flavor.

**T. WOODS:** Now, you have here in your—I'm going to put on my site TomWoods.com a little page on turkey preparation, and you can be assured I had no input in this, thank heavens. I'm going to put my link to my wife's recipe for this at TomWoods.com/turkey. But why are you telling people not to baste their turkey? You're saying you should take your turkey baster and just throw it out the window. So the entire turkey basting industry is just a big scam?

**H. WOODS:** Yeah, actually, if you have a baster, you should probably put it in your blender and grind it up. I mean, they are absolutely useless. So, part of the secret to having an actually moist turkey—most people think if you baste it every twenty minutes or so that really helps reabsorb the juices, when actually that's completely false. So, first of all, every time you open your oven door, it lowers the temperature in your oven about thirty degrees, and so then your oven has to overheat in order to make up for that, and so going through that process, the turkey tends to dry out quite a bit. But also, after about fifteen to twenty minutes of being in the oven, the skin of the turkey will start crisping up, which then, therefore, is a barrier for any liquids getting back into the turkey. So you don't need to be up at five in the morning and checking your bird ever twenty minutes. It just doesn't work. Basically, the onions and the orange rinds are going to give it moisture from within and keep it all held in there.

**T. WOODS:** All right, let me make sure I'm understanding something, though. Just going back a little bit here. If you're telling me the citrus chicken recipe was where you got the idea to stuff the citrus into the turkey, then this really is the Woods family approach to turkey. I thought it was a recipe that maybe we'd found and we started to use, and since we have blogs and other people don't, we can sort of take credit for it, but you're telling me this kind of is the Woods family secret.

**H. WOODS:** Basically I tweaked it a little from the original chicken recipe and kind of just perfected it over the course of about a year, and there you go.

**T. WOODS:** Nice. All right. Now, once in a while we get people who say, "Oh, if you want to have a moist turkey, I've got just the route for you to take. You should brine—brine that bird. Brine this thing for twenty-four hours. Brine, brine, brine." Well, look. I'll tell you something. I know you don't need to brine it because I trust you and you tell me you don't need to brine it. But I'm going to let you in on something I've never told you before in all eleven years of marriage. I have no idea what brining is.

**H. WOODS:** [Laughter] Brining is usually the act of putting meat—in this case, a turkey—into a solution of different things. So it's basically a solution of liquid you put the turkey in, and you let it sit for twenty-four hours. The idea is the turkey soaks up all this liquid, so that when you bake it, it goes into the oven having more liquid than it needs anyway, so it stays moist. So the trouble with that is, it's really time consuming. So, it's at least 24 hours of prep and then cooking it, and who wants to do that? So, what our recipe calls for is: you buy your turkey and you put it in the oven, and two to three hours later, for approximately a 12-pound bird, it's done.

**T. WOODS:** All right, so why would you—even if brining is a super-duper idea for some other reason—if it takes all this extra time, and our process takes very little time, why would you make things more difficult? Is that what you're saying?

**H. WOODS:** Yes. And I mean, you get the same result. It's not that our recipe would be less juicy. I mean it would be the same result, but our method is much less time intensive.

**T. WOODS:** Now what you're telling us about a turkey is so contrary to the conventional wisdom. First of all, no one thinks: all right, time to stuff my oranges into the turkey. I mean, people don't think about that to start with. But also telling us that we shouldn't be basting the turkey. Like, I would—if you had told me that, I would have just said, look, you don't know what you're talking about. I can't believe they would make a product that's so totally counterproductive to use. So are there other things in cooking other things, other than turkeys, where you've found there is some wisdom that you've uncovered in the kitchen, or that you learned in a course—and, by the way, if you can't think of anything, we'll just edit this question out; it's no problem. But is there anything else in which you have said, "You know what, I find that doing it this way, which is 180 degrees opposite from how other people do it, actually works better." Do you have anything else like that? Because we love that on this show. Do the opposite. You know, people say, do you have a common cold, then you should drink a lot of liquids. We say, drink no liquids. Well, we don't quite do that, but you see the example.

**H. WOODS:** Well, I don't know. I mean, I would think the examples that come to mind are actually with baking, which actually is more or less science than anything, because everything has to work just right. So, I've learned that setting out the butter and the eggs overnight give you a much better product, but you're told eggs are going to kill you if you leave them out for more than an hour, so most people won't do that because they're afraid of getting salmonella. And actually salmonella lives on the outside of the shell of the egg, so if you're worried about that, wash your egg before you crack it, but for the most part, having eggs and butter and fats at room temperature or maybe even slightly above, actually gives you a better product in the end.

**T. WOODS:** Now, see, this is one we actually fought over for eleven years. I say, "You're leaving the butter out. What's wrong with you?" And you say, "What's your problem?" Right? We fight about it.

**H. WOODS:** Yes, and then I would get up in the morning to make cookies or something and the butter was back in the refrigerator. It ruined my whole day.

**T. WOODS:** [Laughter] It's hard as a rock. You can't cook with it. You can't use it. You can't spread it on anything. Because Tom was in the kitchen. That's the big problem. All right, so your turkey secrets then have now been revealed. People can get them at [TomWoods.com/turkey](http://TomWoods.com/turkey). But let's talk about this turkey who's sitting right here in front of the microphone. Now, when we—she's giving me this look like that's a terrible segue. All right, so when I put this up on Facebook—and you guys are following me on Facebook, right? [Facebook.com/ThomasEWoods](https://www.facebook.com/ThomasEWoods). Because we have good discussions there. We have a good group. There are not that many rude people. It's basically fun.

So I posted a thread about what should I ask my wife about, while we're talking about turkey. What else can we talk about? And some people would say, "Well, talk about the Democrats." And I thought, "I don't want to talk about the Democrats. That's what we talk about all day, stuff like that. What else can we talk about?" So somebody said something like, "Well, what about her political views?" Or, "Did she think you were some kind of weirdo when you guys met and she found out just how crazy your views were?" And so I've never really gotten the answer to this question, until right this minute, going on the air, and, of course, since I am the audio engineer at the Tom Woods Show, anything that's said here can disappear down the Orwellian memory hole with the click of a mouse. But let's see what ol' Heather has to say. So what's your thought about all that stuff?

**H. WOODS:** Yeah, we try not to talk about that. No, I'm kidding. Yeah, so let's see. Our first actual date, I guess you would call it, was a three-hour phone call. You were in New York, and I was in Oklahoma, and I think about two hours and forty-five minutes of that call was—[Tom protests in the background] about Jethro Tull. First we talked about Jethro Tull and how amazing their music was, and I had never heard of them. But I wanted to not lose him, so I said, "Yeah, this would be great." So he sent me a tape. It was actually pretty good music.

**T. WOODS:** I did not talk to you about it on the phone.

**H. WOODS:** Yes, you did. And then we talked about the Mises Institute and Austrian economics.

**T. WOODS:** I did not talk to you about that! You're such a liar. We had emailed before then, talking about regular things, right?

**H. WOODS:** Sort of.

**T. WOODS:** We talked about some regular things.

**H. WOODS:** Oh, yeah? Like what?

**T. WOODS:** Oh, just life. You know. What are your likes? What are your dislikes? You know, we talked about all kinds of things. Like raising children. Right? So there wasn't much left to talk about at that point except praxeology.

**H. WOODS:** Yeah. Well, in fact, when I got off the phone, I said, "Mom, have you heard of this word 'praxeology'?" and she said, "There is no such word. Where did you come up with that?" So, anyway, that was interesting. I don't know. It wasn't weird. I thought it was really interesting because I didn't know anything about it.

**T. WOODS:** This is so weird. I insist to people that I am more normal than this sounds.

**H. WOODS:** Well, now, after I married you, of course you are. But, I remember over the course of the

next few years, while we did a lot of phone calls, he asked about how did I feel about the Republicans versus the Democrats, and I said—

**T. WOODS:** It was sort of a trick question.

**H. WOODS:** —Yeah. Jerk! Anyway, I had said I didn't really like either because they all seemed to be in the same group, but just focused on different things, and it was just a pain. And he said something along the lines of, "I'm so glad you said that." So, I guess some of my instincts were already in your camp, but because I was so young, I hadn't really developed theories around it at that point. So I definitely learned a lot, and some things have changed over the years, and some things have not.

**T. WOODS:** Well, I remember that early on, just because you wanted to know about stuff that I was involved in, you bought a bunch of books and read them. Now I'm going to make you embarrassed. But that's honorable. Of course it makes you seem awesome. I get that. But honestly, you read *Economics in One Lesson* and a bunch of other books like that, and you were kind of doing it on your own, and so because you were doing it on your own, one of the things you got was *The Theory of Money and Credit* by Mises, and I wish you had told me you were doing this because I would have said I haven't even read *The Theory of Money and Credit*. You know, if I can read Bob Murphy's study guide I feel satisfied with my accomplishment.

But then, of course, you and I were both very much involved in the Ron Paul campaigns both times, in 2008 and 2012. And you remember the night it was Paint the Town Ron? And we had a bunch of college kids. We had a minivan so we could fit a bunch of people in there, and we went around town, and what were we doing?

**H. WOODS:** Well, off the record.

**T. WOODS:** Well, they can't get us now.

**H. WOODS:** Yeah, we won't mention the town. You and I and some friends were actually out pretty late putting up Ron Paul signs around town, so that when people got up the next morning, they didn't know what had happened. But a lot of them said "Google Ron Paul," rather than just standard stuff. Whoever came up with that was really brilliant, because that got people talking all over town, and actually Googling Ron Paul.

**T. WOODS:** And somewhere, we have video of us driving around the next day saying, "Hey look at that sign. Look at that sign. Look at that sign." And then police would drive by and we'd be walking along, we would drive in our van and then stop, get out, do a sign. And as we'd be walking around with the signs, I remember there was one time the police drove by and as I saw them coming up on me, I just dropped the signs and kept on walking so he wouldn't even see me.

**H. WOODS:** And I was in the back holding the hammer, thank you very much.



**T. WOODS:** Yeah, so we could bang the sign into the—private property, all right, you’ve gotta kind of keep off private property. But public property, you know, it belongs to us all, doesn’t it? So why couldn’t I put up my sign? And we would try and put them up so that it would be too annoying for them to take them down, like as high as we could get them. But we had a lot of fun.

We went to that straw poll. The Western Alabama Republican Straw Poll. That was the first time we went to any event like this, and we had no idea that when we got there, even though there were eight or nine candidates, and there were 250 people at the straw poll, 200 of them were for one candidate. They were all for Ron Paul. I had never seen anything like this before, and that really got me excited. It made me think, hey, something’s really happening here.

**H. WOODS:** Yeah, that was a lot of fun. You meet a lot of good people. A lot of normal people, which was—

**T. WOODS:** You must be thinking about some other group. I don’t know.

**H. WOODS:** —Well, you know, in other words, they were just hard-working people who cared about things rather than polished suits, and you know, super bright, white teeth, just trying to get up, ahead in life.

**T. WOODS:** So we had some fun doing that. So there you go. So, my wife is sort of on board with a lot of this stuff. I don’t grill or interrogate her about specific things, but we talk an awful lot about an awful lot of things. But this turkey recipe just blew me away, and now, just today, I learn how original it was. Like you thought, well, if it overdoes it on chicken, then it’ll be just right with turkey. So, check out [TomWoods.com/turkey](http://TomWoods.com/turkey). That’ll take you over to my wife’s recipe, which is full of pictures, and it looks absolutely delicious. Anyway, I feel funny saying to my wife, “Thanks so much for taking some time with me today, Heather Woods.” But, thank you, dear, for talking with us today.

**H. WOODS:** Well, thanks for having me.

[TW note: The audio version of this episode contains a funny blooper section that doesn’t make sense in a transcript, but is funny to listen to.]

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# What's Wrong With the Economy?

## Guest: Robert P. Murphy

### November 27

*Bob Murphy holds a Ph.D. in economics from New York University. He is the author of Chaos Theory, The Politically Incorrect Guide to Capitalism, The Politically Incorrect Guide to the Great Depression and the New Deal, and Lessons for the Young Economist. He blogs at consultingbyrpm.com/blog.*

**WOODS:** Now you have a blog post, and that's what made me think it's time to have MURPHY back on here. And you're talking about Paul Krugman's summary of what Larry Summers recently said at the IMF. Now, apparently, Summers is suggesting that insanity is going to be the new normal. Can you unpack this?

**MURPHY:** Sure. So I think the first thing to make sure your listeners understand is what Krugman means by a liquidity trap.

**WOODS:** Right. Explain this.

**MURPHY:** All right. If the economy slows down, even Keynesians like Krugman ostensibly would say that doesn't call for fiscal action. The central bank has the power to fix it. They just lower interest rates, because with a lower interest rate people in the private sector are going to spend more on consumption, spend more on investment. You don't need the government to come in and run a budget deficit to fix the economy.

Even Krugman says that's the official position, except when you get into a liquidity trap, because, suppose the economy is in such dire straits that aggregate demand is so much falling short of where it needs to be for full employment that the Fed pushes interest rates all the way down so that a nominal level is zero percent, and yet, there's still a shortfall. You still have high unemployment. And so, Krugman's point is, obviously at that point, standard monetary policy loses traction because you can't make nominal interest rates go negative.

So that's where now everything you normally think of as the standard laws of economics get turned upside down, because now you're in the liquidity trap. So here Krugman says the government wasting

money is actually a good thing. You don't want the government to be penny pinching and balancing the budget when there's a liquidity trap on. You want it to waste money. You want the Fed to make people think there's going to be high inflation in the future, because that will then make them spend money now.

So the normal sorts of things that you associate with good governance, Krugman says, go out the window when there's a liquidity trap. So, throughout this crisis, he's been pushing these policy views, but he always says, "Hey, I'm not a nut job. Once we get out of this recession and things get back to normal, then I'm going to go back to worrying about the budget deficit. I'm going to agree that savings are a good thing," and all that kind of stuff. "It's just during this liquidity trap where things get turned upside down and all these normal economists who aren't Keynesians are giving horrible advice."

**WOODS:** Bob, forgive me. Let me interrupt for just one second. And I realize this is a bit of a tangent, but we should touch on it.

I think a lot of times libertarians who read Krugman or are vaguely acquainted with Keynesianism think the normal Keynesian prescription is always to have deficits, or always build bridges and then blow them up, and then build them again and blow them up again, and so on. I think it's important to explain that's not really the case. But on the other hand, is that really libertarians' fault, or is there some aspect of Keynesianism that might lead somebody to think that that's what they're saying?

**MURPHY:** That's a good question. I think it's a little bit of both. It's certainly true in terms of the standard text of new Keynesian theory that you're not supposed to run a budget deficit just to fix a depressed economy so long as interest rates are positive. The standard theory says no, that just wastes resources; go ahead and have the Fed cut interest rates, or the central bank lower interest rates. But, it is true that in practice I think you won't see that as much and that, also—old Keynesianism, I think that was their standard view. They had a thing about, you run deficits when there's a recession, and then you run surpluses when there's a boom, so that you have a balanced budget over the business cycle. That sort of thing. Also, it's very convenient that, when there's a Republican in office, that's when Krugman was being very much a budget hawk, in terms of, "Oh, my gosh, he's irresponsible, tax cuts for the rich, I can't believe it." So, again, it depends on how fair you want to be. It's certainly true you can point to textbook new Keynesian theory, not old Keynesian, but new Keynesian theory that makes these subtle points. But in practice, I think it is true that the people who call themselves Keynesians do seem like they're always coming up with good reasons why they ought to be spending money right now.

**WOODS:** Let's get back to what you're describing now, then. As Krugman has been saying, because we're in a liquidity trap, as he says, there are certain laws of economics that don't apply right now, but they will apply when we get out of this. So now, how does Larry Summers affect this overall picture?

**MURPHY:** Okay, so, now in that context, at the recent IMF conference, Summers presented this shocking paper, or this big deal paper, and Krugman is summarizing it on his blog saying, "You know, hey, I've been going along these lines myself and Summers just came out and said point blank that we need to face up to the fact that we may be in this liquidity trap for a long time, that we've been on the

verge of falling into it since the 1980s, and the only thing that's kept us out of it has been a series of bubbles." And so they're saying the entire nature, the whole structure of the US. economy from the 1980s until now and for the foreseeable future is such that, unless we have a string of bubbles, we're going to fall into a liquidity trap. And so it's sort of like they warm people up for a few years by saying this is a very temporary, odd situation where normal policy recommendations and things that seem like prudence are actually a bad idea, but now they're kind of saying, "Oh, by the way, this stuff we've been telling you for the last few years, this is going to be the standard going forward."

And just to give you an example of what I mean, over the next day or two Krugman had a post talking about Social Security, and he said, it's good if you expand Social Security so that people save less. So, he's saying we need to come up with things that make Americans save less, and he's not talking about next fiscal quarter or something; he's saying, in terms of going forward into the future. "The problem right now is that people are saving too much." I mean, he's really taking this to mean this is a long term structural change now, because the U.S. economy as it is is addicted to bubbles, and all these policy recommendations flow from that view.

**WOODS:** All right, so on Larry Summers, we've got now a subsequent interview that was excerpted over on ZeroHedge that you and I read before we started chatting. He was asked how he felt about bubbles. He said, "Well, I don't favor bubbles." But he had been saying we had only been able to have growth because of bubbles, so maybe we need a new framework in which we can have growth without bubbles. But someone like David Stockman has been saying sort of the same thing, right? That what we've been seeing are these bubbles that bump up the numbers, that make it look like we've got a lot of employment, we've got a lot of economic activity—but in terms of real economic indicators, they really haven't been so good for the genuine health of the economy. So it's interesting that both Stockman and Summers would say there's something unnatural about what's going on here.

**MURPHY:** Right. That's a very good point, and I'm glad you made that connection, because I was thinking the same thing, that let's just be clear, and make sure we understand what Summers's nuanced position is. It's sort of like when Krugman is caught now with that infamous line where he said, "Oh, Alan Greenspan needs to replace the dot-com bubble with the housing bubble." And now he's denying what he meant by that. But, the same thing with Summers. He's not saying, "Oh, it's a good thing that we kept having bubble after bubble, and going forward policymakers need to do whatever they can to encourage a bubble." That's not what he's saying. What he means is, "Given the way the economy is right now, if policymakers don't take my strong medicine and really totally reform everything along my blueprint, then the only way we avoid the liquidity trap is to have bubbles." And so, you're right, though. It is kind of ironic that on the one hand you've got guys like Summers and Krugman who laugh at paranoid nutjobs like Ron Paul, and Stockman, and Tom Woods and Bob Murphy, who, ever since Nixon closed the gold window, have been telling us the economy's been fundamentally screwed up and *blah, blah, blah*, and they keep warning about how awful that's gonna be. But nothing really bad's happened. What's the problem, guys?" And then they're admitting, "No, the whole U.S. economy, the whole structure of it for decades now, has been dependent on bubbles to avoid a catastrophe."

**WOODS:** You would think that would make them apologize: “Even though we don’t agree with our opponents on everything, they did have a basic insight here, that things sort of went screwy 40 years ago.”

**MURPHY:** Right. Yeah, and what we’re really disagreeing on is how to fix it. But certainly, they’re now coming over to our point of view and realizing that, yeah, something was structurally, fundamentally screwed up with the whole U.S. economy for decades at this point. And you know, another thing, too, and this is sort of a subtle point, but remember what the smoking gun was that they used against us, and Larry Summers does it in the same interview where the ZeroHedge people are quoting from, is that he says, clearly, these what he calls “austerians,” these inflation hawks, have been wrong because they’ve been warning that quantitative easing (QE) is going to give us hyperinflation, and they’ve been wrong. But by his own logic, the reason there hasn’t been big inflation over the last few decades is because bubbles were there sort of soaking up things and then getting the economy to jump from bubble to bubble. So by his own acknowledgement, you could have an economy that is seriously screwed up, jumping from bubble to bubble, without seeing CPI go through the roof every four years. And so why are we so nuts saying right now that QE is causing another bubble, if that’s his own view of what’s been going on?

**WOODS:** Now, I want to talk about QE in a few minutes, because in this Larry Summers interview he gives an endorsement of it. I guess there had been something of an urban legend according to which Summers had been an opponent of QE, or he might have been .03 percent more of an inflation hawk than Janet Yellen, but I want to get back to this idea that we’re in a liquidity trap and therefore have to discourage saving as best we can. We’ve got to get people and governments spending on ridiculous things, because, in this case, it makes sense because all bets are off. The traditional laws of economics don’t hold. What do you, as an Austrian economist, say to that? And I know that’s a big question, because I think your answer would be that the whole framework underlying this way of thinking is all wrong. But what would you say?

**MURPHY:** Right. That’s the main thing. They’re viewing the sole function of interest rates as to be a lever that causes total spending to rise or to fall. Thus the response: “Oh, my gosh. There’s a shortfall in demand; why aren’t you going to lower interest rates to boost spending up?” And then, “Aw, shucks. If that doesn’t work because we hit zero, now we’ve got to do some unorthodox thing like promise future inflation, or have the government start building bridges that don’t go anywhere. That’s better than nothing.” And so, yeah, one major objection to that from an Austrian perspective is that you’re totally misconstruing what it is that interest rates do, and you’re setting the economy up for boom-bust cycles by pushing down interest rates whenever the economy slows down, which causes the problem itself.

You know, the thing, too, is that prices can certainly adjust, and part of what’s happening is people anticipate that the Fed is going to come in and intervene and do things to prevent dreaded deflation. But, I mean, if the Fed just stood back and let the bottom fall on this stuff, yeah, it would be awful for six months, but then everybody would adjust to the new situation. They would form their new expectations. You’d hit a legitimate bottom, and then you’d grow from there. And yeah, a lot of prices would fall.

But it's not that tractors would disappear. Farmland wouldn't disappear. Skilled people wouldn't lose their mental ability just because prices fell. You'd still have the same real economy. Things would just get rearranged, and then you'd go forward. So this idea that we're stuck in this decades-old slump now because of some quirk about negative real interest rates to me just seems to totally misconstrue what interest rates do and the ability of the market to adjust to a change in growth expectations measured in nominal terms.

**WOODS:** I think it's unavoidable in this context to say something about QE, because of this interview of Summers. And, as I said, he was asked about QE, and he says that history will look back and overwhelmingly approve the decision to engage in QE. And I don't doubt that because history tends to be written by people who support the state. So of course they're going to support QE.

So explain what QE—quantitative easing—is. I'm sure we have some listeners who hear this term over and over and they don't really know what it means, and at this point they're too embarrassed to say so because by now they feel like, "I really should know this, and I really don't."

And then, secondly, Bob, a lot of times we say quantitative easing is just a synonym for inflation. And then the sophisticates, like Krugman, come on and say, "What's wrong with you people? It's not inflation. It's just an asset swap." Can you clear all this up for us?

**MURPHY:** Sure. So, normally, if you think about it, before this recession occurred, when the Fed would announce what it was going to do after a meeting or something, they would always quantify their decision in terms of what they were going to do with the interest rate. You know, "The Fed today announced that it was cutting the federal funds rate by thirty basis points." Or whatever. It was always measured in terms of what are they doing with the interest rate.

But once that got pushed so low that they could no longer cut interest rates, that's when they switched to announcing how much money they were pumping into the economy. Before this recession, the Fed never told you what they were doing with their balance sheet or how many assets they were buying. You would never have that information. You would have to go look it up yourself. So that's one way of seeing what they mean by "quantitative easing"; they're telling you the quantity of new money they're putting in. Then the various rounds just refer to a major announcement about, "This is how much we're going to spend. We're going to make this amount of purchases over this amount of time."

If you look at a chart of what's called the monetary base of the Federal Reserve, you can see there's three distinct periods where it starts zooming up, then it levels off, then it zooms up again. And now we're in the last one, which is referring to the \$85 billion a month in Treasuries and mortgage-backed securities that we're still in the midst of. So those are what people mean by the QE 1, 2, and 3. They were distinct announcements about asset purchases the Fed was going to undertake because, oh, geez, it's not working yet. So then, so far as Krugman saying "it's not inflation," I mean, in terms of what does the Federal Reserve do, it creates money out of thin air in order to buy new assets, then gives that new money to the financial sector. But it's still the same process, and they can say, "It's different



here because it's not leading to huge increases in prices, so you guys are crazy." The intent is not just to print money, but, I mean, in terms of what are they doing, yeah, they're creating new money and injecting it into the financial system.

**WOODS:** Now, don't the various waves of QE correspond to certain policy aims? In other words, QE is not the traditional Federal Reserve policy of trying to fine tune the economy through various injections and so on, but they had particular aims. QE has particular aims involving the housing market. And QE was intimately connected to these particular aims that they had.

**MURPHY:** Right. I'm glad you brought that up. Different economists had different things in mind. It depends. Are you talking about, what did the Federal Reserve officials say was the reason for what they were doing? And then what did other people say. "Yeah, it's working, but not for the reasons they're saying." So it gets really complicated, but, yeah, why are they buying mortgage-backed securities? How come they're not buying Google stock? Or how come they're not buying land in Thailand or something like that? And, in principle, if the point is just to put money into the system, they could be buying all kinds of stuff, but they're buying Treasuries and mortgage-backed securities, so I would say, of course, part of the reason they're buying Treasuries is that they're monetizing the federal government's debt. The federal government's running humongous deficits and they want to make sure the interest rate on that doesn't get too high and people don't start to suspect that it's unsustainable. That's one reason. And then, even the official rationale for why they're buying the mortgage-backed securities was that was going to help contain the panic in the financial system. It was hitting, if you remember, in September of 2008, where it was sort of a vicious downward spiral where if, all of a sudden, people doubted the worth of those assets, then the companies holding them, all of a sudden, were in trouble. And then people couldn't get credit, and so on. And so the Fed coming in and sort of putting a floor under the price of those mortgage-backed securities was supposed to quell the panic and allow the financial system to recuperate.

**WOODS:** Well, do you think that's responsible? Because, of course, that's the Larry Summers/establishment view. That we would have had a depression had it not been for these bold moves by the Fed.

**MURPHY:** Well, if you think about it, it's kind of like we're all saying basically the same thing, just from diametrically opposed perspectives. And even Ron Paul, if you asked him what would have happened had the government done what you recommended in September of 2008, he would have said, "Oh, yeah, that would have been an awful depression, but it would have lasted just a few months." So, yeah, those financial firms—I mean, I don't know if he would have used the term depression—but those financial firms holding those assets would all have gone under had the Fed not bailed them out by buying those things at what at the time were way above market prices. So, the broader question, of course, is, was that a good thing to do? The same way, we could ask, when Alan Greenspan slashed interest rates after the dot-com bust and gave us the housing bubble, did he buy a few extra years before the crisis struck? And the answer is yes. If he hadn't done anything and just sat back and let it implode, things might have been worse in 2003 than they seemed actually to people in 2003, but he didn't really do the economy any favors. He just made the situation fester and made it that much worse. So I think it's

the same thing here. Yeah, it is a true statement to say, had Bernanke not done QE, things might have been really bad in the summer of 2009, where, in constrast, it seemed like, “Oh, I guess things aren’t so bad after all.” That’s just because he was masking the problem and letting it fester.

**WOODS:** Bob, let me read you a brief statement by Summers and get your reaction. He says this: “What caused this crisis is that there was overconfidence and complacency, excessive borrowing and lending, and unsustainable spending. That is what caused this crisis. But now, after the crisis, the only way we will get the economy back to normal is if we have more confidence, more borrowing and lending, and more spending.” What would you say to that?

**MURPHY:** I picked up on that, too. It’s hilarious that he, of course, is literally saying what we need to do right now is the exact same thing that caused the current mess, which is what Austrians have been saying, yet he doesn’t even seem to realize the irony. At least someone like Krugman kind of acknowledges that, yeah, I realize this sounds crazy, but it’s true.

**WOODS:** Now, Bob, I’m glad that you’re noticing this, because I was thinking maybe it’s because I don’t have a Ph.D. in economics. My Ph.D. is in history. That maybe I’m missing some sophisticated subtlety here, but I’m glad to learn that I’m not.

**MURPHY:** He doesn’t even go out of his way in that particular quote. Maybe he does it elsewhere, but he doesn’t acknowledge the apparent problem and then explain: “Just because I’m recommending what I admit got us into this crisis, this time it’s going to be a good thing.” He doesn’t even give a nod to that and explain, so it’s hard for me even to get in his head.

If I could just very quickly go back. The reason people are saying that Yellen is better than Summers is he actually, perhaps in an unguarded moment, did write something along the lines of, “I am not sure that further QE would do anything, because right now with interest rates so low, if there are projects people aren’t investing in and undertaking at this kind of a low rate of return, it needs to push the interest rates even further negative, and then that makes the project profitable, are we sure we want to be pushing people into those projects?” It was almost an Austrianesque point, and because he had the temerity to say that, that’s when all the progressives bit his head off. And guys like—I think it was Matt Yglesias—accused him of being a socialist. In other words, Larry Summers was trying to micromanage some doubt about what the market was going to do, because Larry Summers knew that a project that could only be profitable at a negative two percent interest rate was not a good project. That was the spin they gave to it and bit his head off, because he suggested maybe we don’t want to encourage investment in projects that require an even more negative interest rate to be profitable.

**WOODS:** Bob, if the Summers/Krugman approach here is going to become the conventional wisdom, which it very well could, what kinds of things can people expect? The politicians don’t necessarily follow the economists all the time, it’s true, but they usually follow them in the worst things they say. So how is this going to affect the average person? And also, how do you respond to the argument that we have huge scope for monetary inflation because prices are so darned low? So we can afford to do

crazy things.

**MURPHY:** Well, as far as your first question, what does this mean? I think what guys like Krugman and Summers and other sort of intellectual pundits, by which I mean people who don't have Ph.Ds, but guys like Yglesias and Ezra Klein and those kinds of guys—what they do is come up with a seemingly intellectually justified rationale for what the government wants to do. So we can't predict exactly what direction the government is going to move in, but the point is, if they want to go a certain way now, they can cite this stuff and try to explain it, and it percolates up into the more responsible policymaker views so that you can see stuff coming out of the Federal Reserve or the IMF or the World Bank, or what have you. And so I think that's kind of what this is. Guys like Krugman and Summers are the people who throw it out there, run it up the flagpole, and people can see if it's going to stick. As far as if people think, "Oh, come on, prices haven't been blown up so we can afford to keep pushing this until we see some negative consequences," it's sort of odd that even Summers and Krugman are agreeing that this sort of mentality has been getting us bouncing from bubble to bubble for decades now, and so, isn't that one of the negative consequences?

**WOODS:** Right. Good. Good. Thank you!

**MURPHY:** That is part of what we've been saying, and it's true. It was, I guess, a tactical mistake, and I, of course, am guilty of this. I thought price inflation was going to be worse now than it has been, but certainly the Austrian theory of the business cycle—the objection that Mises and Hayek made to monetary and credit inflation—was not, "Oh, that might make prices in the grocery store go up higher than the housewives would want." That was never the issue. The issue was it's going to set up a boom-bust cycle. Interest rates serve a purpose, and so if you change them, you're going to screw things up. So all that is still true.

One last thing, though: to the extent that they do keep piling money in it, at some point they're going to have to unwind that stuff. At some point, prices will start rising and banks, when they feel confident again, will start lending and so it's better to not have ten trillion dollars in excess reserves sitting there. It would be better to have just one trillion. The point is, even if you didn't think there was an issue, if everybody is kind of agreeing this isn't really working right now, it's not getting us where we need to be, then why would you just keep piling on?

**WOODS:** You know, new people are subscribing to this program all the time, and although a lot of people know about the Austrian theory of the business cycle, or they hear the term "boom-bust cycle" and they know what we're talking about, we probably should have a program for the average guy who's just diving into this for the first time, and have it be on Austrian business cycle theory. So maybe we'll have you or some other guest, because it really is the key to understanding so many other things.

Well, anyway, Bob, as always I appreciate your time. There's always so much idiocy to respond to, and yet I have Bob Murphy only twice a month. But I think we really packed a lot of good responses into this short amount of time. Thanks again.

**MURPHY:** Thanks for having me. See if you can get Larry Summers on. He can talk about Austrian business cycle theory.

**WOODS:** Or Krugman, who seems to know it so intimately, right?

**MURPHY:** Yeah.

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# Mind Your Own Business

## Guest: Phil Giraldi

### November 29

*Phil Giraldi is a former counterterrorism specialist and military intelligence officer of the CIA.*

**WOODS:** I've been wanting to have you on for some time, and then I saw this piece that you wrote in *The American Conservative*, where you write regularly, and it had to do with an issue that has fallen out of the news cycle a bit, but really there is no Middle Eastern country that is permanently out of the news cycle when you're an American. And you had a particularly interesting angle on it because it turns out that the evidence with regard to chemical weapons being used by the Syrian government was so flimsy even by U.S. government standards that, apparently, there was a threatened revolt within the intelligence community. Can you tell us about that?

**GIRALDI:** Yeah, well, it goes back to Iraq, and we all know now that the intelligence community was, to a certain extent, blamed for what went wrong in the lead-up to the Iraq war. In other words, the information and the intelligence received by government that turned out to be either fabricated or incorrect were basically laid at the feet of the intelligence community. So, this time around, when the Obama administration was looking for an intelligence justification to intervene in Syria, the intelligence community, at least certain elements in it, looked at the evidence and basically said, "This doesn't convince me that the Syrians used chemical weapons against its own people, and we won't go on record as saying that that was the case."

**WOODS:** So, what kind of effect do you think this had? I mean, do you think this would have bothered the Obama people? Do you think this had a marginal effect on their ultimate decision?

**GIRALDI:** Well, the Obama people went back and, as in the case of the Bush people, tried to pressure the analysts into finding more information or interpreting it in a different way to make the case, but there was still considerable resistance, which eventually worked out to when the administration issued its own paper, the Government Assessment, on August 30. It came out of the White House, instead of out of the intelligence community, because the threat that was implicit was that a number of senior analysts would have resigned and publicly disagreed with the paper. In the long run, of course, we didn't attack Syria, and you can attribute that, I think in part, to this. But also, I think more so to the fact that the American people finally had had enough, and Congress and the White House were flooded with

complaints from citizens saying basically, “We don’t need another war. There’s no justification for the U.S. getting involved in Syria.”

**WOODS:** Now you and I tend to be of the opinion that the two parties, especially when it comes to foreign policy, can often be more alike than different. But, I wonder, though, when we’re dealing with Obama if, for all his use of drones and for the fact he has increased the American role in Afghanistan, is it possible his heart is genuinely not in another war?

**GIRALDI:** Yeah, I’ve suspected that for a long time, that he’s being driven in certain policies by advisors and by consensus politics, and by the fact that he can’t be seen in certain ways by his own supporters, as well as by the Republicans. I think he’s in a very touch neighborhood, and I suspect his heart is not in this stuff. I suspect in the current situation, he doesn’t want a war with Iran, would like a negotiated solution, if he can get that by the Israel lobby. And certainly I think in Syria he was pushed into it perhaps by some of his advisors like Samantha Powers and Rice, essentially on humanitarian grounds, but as we’ve seen, this humanitarian argument was pretty weak. The use of military force to kill more Syrians obviously would not have ameliorated the state of other Syrians. So it was a false premise to start with.

**WOODS:** Now I ask this not facetiously, but where do you think we would be right now, foreign policy-wise, if we were living under, not a President Romney—who, may conceivably have had some degree of prudence—but where would we be under a President McCain, do you think?

**GIRALDI:** Well, I think there would have been no hesitation for using military force either with McCain or with Romney. McCain probably would have been more enthusiastic about it. But, again, it’s a question of how one views the world, and how one views America’s role in the world. And there is something to say for the United States having some kind of policeman’s role, but there is not much of a case really to be made for America being an aggressor in terms of trying to enforce its own norms on other countries. So, there’s a fine line there, and Obama kind of falls on one side of the line, and people like McCain and Romney fall on the other side.

**WOODS:** When I introduced you, of course, I mentioned your CIA background, so I don’t know how comfortable you feel talking about this, but do you think the CIA has in one way or another gotten maybe worse in the twenty or so years—when did you resign or retire from the CIA?

**GIRALDI:** I left the CIA in 2002, so it’s eleven years ago.

**WOODS:** Okay. Of course, we’re talking about this case of Syria where there was a threatened mass resignation. But do you think there have also just been quiet resignations here and there without a lot of fanfare from conscientious people who just say, “I just can’t do what they’re inevitably going to be asking me to do”?

**GIRALDI:** I think that always takes place. Basically, there are going to be people that basically say I can’t support these policies. I can’t support what’s happening. And most of them just quietly leave.



There were a number of notable resignations at senior levels in the lead-up to Iraq. But there hasn't been a replay of the Iraq situation since that time, although Syria threatened to be that. And certainly if we keep going down the wrong road with Iran, that can certainly happen there, too. If one goes to some of the antiwar-type sites that you and I probably look at, you would see that there are people that basically think that soldiers are baby killers, and that people who work for the national security state are essentially conscienceless. They leave their conscience at the door when they go in. But, of course, that's not true. And many people are conflicted about their roles in working in their jobs, and I can remember many, many acrimonious debates when I was in CIA about certain policies that didn't make sense, or that seemed to be particularly tone-deaf in terms of the impact on local people.

**WOODS:** Well, how much can you tell us about the type of counter-terrorism work that you did? Was it confined to a particular area of the world? Was it Islamic terrorism? What sort of work kept you occupied when you were in the CIA?

**GIRALDI:** Well, everybody forgets, I think, these days, that the terrorism that started out in the '70s was European, and it was basically a number of groups like Baader Meinhof in Germany, the Red Brigades in Italy. These were European anarchists, leftist primarily, people who came together and formed terrorist groups with the goal of overthrowing their governments. So I started out working with those groups. I went to Italy when Aldo Moro was kidnapped and killed. I spent four years there. I worked in Germany, worked in Spain, worked in Turkey. I was always working on terrorist groups, most of which were either indigenous or European. Terrorism coming out of the Islamic world was sort of later. It's a manifestation now of a lot of things, but a lot of the policies the U.S. and other countries have pursued internationally have literally put fuel on the fire in terms of creating this kind of terrorism.

**WOODS:** Now, I myself, I don't reject every single thing that I read in *The New York Times*; I mean, they do use periods and semi-colons correctly. But not every single thing that comes out of their mouths is wrong. Having said that, is there any part of you that finds the bin Laden story a little bit fishy? Or does that seem plausible? "We got him. We don't have any direct evidence of this. We immediately got rid of him, threw him in the water. And there's no body, and there's no nothing, but take our word for it, this happened." Does that not sound just a little bit weird to you?

**GIRALDI:** Yes, it does. I don't generally want to believe in conspiracy theories and that sort of thing, but you know, you look at a lot of these recent episodes and you have to say there's something missing from this story. For example, if you go to the 9/11 report, there's certain areas there you say, "Well why didn't they look at this? Or why didn't they discuss that?" Which is not to say that the United States blew up these buildings itself, but the fact is, there are certain things they didn't look at. And I feel the same way about the killing of bin Laden, and certainly Seymour Hersh, who as a journalist I respect tremendously, has been saying recently that a lot of the story is just flat-out false.

**WOODS:** Maybe this is naiveté on my part, but I guess I just found it hard to imagine that Obama could go out there and just brazenly say to the world, "We just did this. We went out and did this." When conceivably, if there's something fishy about the story, there'd be a lot of people and a lot of regimes around

the world that would know the truth. But, would the idea be that no one is going to believe them anyway, they'll believe the U.S., and they won't believe some backward Middle Eastern country?

**GIRALDI:** Well, I think that's the kind of weighing up that goes on, obviously. When a head of state decides to tell part of a story, he's assuming that he's not going to be challenged on it, and he can always claim that the critics are motivated by some other reasons, by political reasons. I think that's what a lot of the consensus of American policy has been since the Second World War. It has been cast that way and we've been fed a lot of lies or half-truths, and the people peddling these stories basically have assumed that they won't be challenged.

**WOODS:** Now you played some kind of role with Ron Paul in an advisory capacity. Is that in both of his presidential campaigns?

**GIRALDI:** I was a foreign policy advisor for Ron Paul in his first campaign in 2008, yes.

**WOODS:** Were you approached to do that? Or did you approach them with your services?

**GIRALDI:** I was approached to do that by his campaign.

**WOODS:** And why did you accept? Presumably you saw some overlap between what he was saying and what you believed?

**GIRALDI:** I felt very strongly that he was saying precisely what I thought, which is essentially—I'm not a pacifist, I'm not intrinsically antiwar. I served in the U.S. Army during Vietnam, just as Ron Paul served in the Air Force. And Paul was saying essentially the same things I'm saying, that there are wars that are worth fighting, but we just haven't had any lately, and we shouldn't be using the military as a tool to go off and start wars as a substitute for foreign policy. And that's essentially Ron Paul's message, that intervention doesn't work, that if you're using it instead of diplomacy, you're essentially going to come out with a bad result, and I think that what he's been saying about that has been demonstrated by the reality that we see all around us.

**WOODS:** I suppose you know Michael Scheuer? Did you have any professional connection when you were with the CIA?

**GIRALDI:** No, I didn't. He was an analyst, and I was a field operative in clandestine services, so I heard his name. I knew who he was, and I've met him since then, and we've been together on a number of shows. We were on CNN not so long ago together. And he's a very, very insightful person in terms of a lot of the things that he's seen in terms of the causes of terrorism, which goes back to the earlier question about where this all kind of originated, how it came out.

**WOODS:** Well, to my mind—and of course he also worked with Ron Paul—the most significant contribution Dr. Paul made to American life was his frank talk about foreign policy. I mean, he talked frankly

about everything you asked him about, but with foreign policy he was saying things that nobody would say. There might be a few progressives out there who in their heart of hearts kind of believe it, but in political life they wouldn't dare say it, and now there's a lot of toothpaste that's out of the tube. But do you think there's anybody on the horizon at a national level who's really going to carry forward the pure, one-hundred-octane Ron Paul message?

**GIRALDI:** I'm afraid not. But again, these situations change in terms of the reality of our foreign policy and what's going on in the world. I think Ron Paul has created an opening for this kind of discussion to take place, because, as you pointed out, it never took place before that. He was the first one to open that door. But I don't see anyone having the courage or the intellectual stature that Ron Paul had to push forward this agenda. I'm afraid of that. We don't have politicians who believe as Ron Paul believes, as I believe, that our international policy, our foreign policy, is what has driven a lot of the bad things going on domestically. And I think Ron Paul understood that very clearly, and other politicians don't seem to. They seem to weigh up this against that: "well I have to say this, or I have to do that," and when they do that, of course, they lose the message.

**WOODS:** How do you account for how it came about that all these right-wingers out there who, by and large, have been supporting whatever military action either party has demanded of them, all of a sudden rebelled against the John McCain wing and said, "We don't want to be involved in Syria, and we protest." The Iowa GOP issued this public letter with dozens and dozens of people signing it, many of them from the Christian Right. And all of a sudden, they are deeply concerned about the fate of Christians in the Middle East, which had not caused them to lose much sleep up to that point. What do you think changed? What happened there?

**GIRALDI:** Well, again, I think Ron Paul started this discussion and people started looking at these issues as a result of his two campaigns, and the problem is a lot of it is hypocritical. They have been looking at Christians now, but they haven't looked at the fate of Christians in places like Israel and Iraq, where Christians have been on the receiving end of a lot of bad policies. It's a current issue; it's serious. Somehow it sent the right buttons with the public, but, again, it would not have happened without Ron Paul opening the door to this kind of discussion. And I hope and persist, but I'm not optimistic. I think that essentially all politics, even if they originate overseas, come down to being local politics, and our domestic situation is just so bad now, the economy is so bad, and Obamacare is going to be a massive failure and money pit. And, as a result, I think people will begin to focus on that more.

**WOODS:** Well, in a way, that's good for us, because it would be harder to persuade them that their most urgent task is abroad when everybody can clearly see our most urgent tasks are here at home. So that may be the silver lining that the wheels are coming off this thing. Now you, as a former CIA field man, how do you get your information today? If you want to know what's really going on in the world, you don't pick up *The Washington Post*. What do you read?

**GIRALDI:** Well, first of all I have a network of former intelligence and military officers that I communicate with frequently, so we share views. We share things that we've picked up and seen, and sometimes

these people have seen things that are not evident in the U.S. media. And I also find that the overseas media is very helpful to look at what people in the Middle East are saying, what people in Europe are saying, and that sort of thing. And then the final thing is, like this story here, I picked up a number of things here and there and put them together. I said, “What makes sense out of these bits and pieces?” And essentially I put them together and said, “This is what happened.” And this whole process is intuitive. Some of the process is essentially, you hear something from someone who is well-informed, and you kind of run with it.

**WOODS:** Well, before I let you go, I want to play devil’s advocate on just one aspect of the sort of Ron Paul story of what’s going on in terms of terrorism and war, and that’s the neocon answer that, “Look, if Ron Paul’s view of the world were correct, then all the terrorism would be committed against the U.S. and its most robust allies, but the fact is, we see acts of Islamic terrorism going on in the Netherlands, for example, or in other European countries that don’t really seem a thousand percent on board with the global war on terror, so it really is just as we neocons said. These are jihadists, they want to bring about the caliphate. They don’t discriminate between the U.S. and others. We’re all Western infidels, and that’s what matters, and there’s no appeasing these people, so we just need to obliterate every last one of them.”

**GIRALDI:** Well, that argument has a certain popularity among certain neocons.

**WOODS:** You don’t say.

**GIRALDI:** It doesn’t really pass the smell test, because a lot of the issues that we call terrorism are actually local issues. If you look at many of the countries in the Middle East, where there is what we would describe as jihadism, the fact is what motivates the groups locally are local issues, and they have a grievance with their governments, they have a grievance with their group. In Europe, the terrorism situation is a lot more complicated. Essentially, you have a number of European countries that have permitted large-scale Muslim immigration, and then essentially abandoned these people, and we Americans should understand that. The problem of creating ghettos in terms of your own country is a problem that will breed all kinds of things, and I think that certainly the terrorism we have seen in France is a result of that, and the Netherlands to a certain extent, and the same sort of things in Germany. It is easy to characterize them as Islamic terrorism, but, of course, they’re a lot more complicated than that. They come out of different issues in each place. In France, of course, the terrorists will be mostly Algerian. In the Netherlands, they’re mostly Moroccans. In Germany, they’re mostly Turks. And each of them have different grievances with the places where they’ve wound up. So I think you have to look at the roots of the terrorism in each place, and you find that it is no transnational movement in most cases.

**WOODS:** Where can people read columns by Phil Giraldi?

**GIRALDI:** Well, I write regularly for *The American Conservative*. I write for both the magazine edition and for the website. I write for Antiwar.com regularly. Those are my two most frequently used websites.

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# The Conservative Mind

## Guest: Brad Birzer

### December 2

**Brad Birzer** is Professor of History and Russell Amos Kirk Chair in American Studies at Hillsdale College.

**WOODS:** Brad, I much respect your work, and I was particularly intrigued by this piece that you wrote on Russell Kirk on the book *The Conservative Mind*.

You know, even though I have my own criticisms of Kirk, I feel like the conservative movement would be in a lot better shape if people read him—if they read anything that even approached the level at which Kirk wrote. It would be a massive improvement.

But what you focus on here particularly are all the different editions of his classic book, *The Conservative Mind*. I didn't realize that book had sold over a million copies during his lifetime, which is an incredible, almost impossible, achievement with a book of this level.

First of all, what do you attribute that to?

**BIRZER:** Well, it came at the right time. And, of course, it was so beautifully written. I think there were so many people searching for some kind of heritage, just something, right after World War II. Plus, you've got a revival of Burke and de Tocqueville going on at the time. Hayek had already made his splash in 1944.

So, I think a lot of Americans wanted an American voice. They were happy to have Hayek, but they wanted to hear somebody home-grown. They wanted to know where America's position was. I think, especially vis-à-vis the Soviet Union. And I think Kirk provided that in a way that he didn't expect, and probably in a way that a lot of people in the American public didn't expect at all.

One thing that we often forget, Tom, is that Kirk was actually a real celebrity for about ten years after the Goldwater fiasco had calmed down a lot. But really, for the ten years after *The Conservative Mind*, anybody who was anybody—left, right, it didn't matter—turned to Kirk as the voice of conservatism. So, he really did have an incredible status, especially considering he was only thirty-five when that book was

published, and not married. Young guy. Had quit, very publicly, Michigan State. So, a very interesting figure, but certainly a celebrity.

**WOODS:** Now, when that book first came out—1953?

**BIRZER:** Yes, that's right, in May of 1953.

**WOODS:** Okay. When that book first came out, the subtitle was *From Burke to Santayana*. Then later, it became *From Burke to Eliot*. Kirk had built up quite a friendship with T.S. Eliot. What can you tell us about his relationship with T.S. Eliot?

**BIRZER:** Let me backtrack just a little bit, Tom.

He had really disliked Eliot's work as a young man, and had written his first papers in college against Eliot. And in his own personal diaries and letters, Eliot was—at least up until about 1952—always a buffoon in Kirk's writings, and Kirk used him as the great big fraud that had been perpetrated against Western culture.

Then, Kirk and Eliot actually appeared together in The University of Chicago journal, *Measure*, in 1950. Eliot was writing on education—liberal education—and Kirk was pretty taken with that. It was after he read that article that he started reading some of Eliot's scholarly works, especially his cultural criticism. Then the two ended up meeting one another in the summer of 1953, after *The Conservative Mind*, and Eliot had become as big a fan of Kirk as Kirk had of Eliot.

The two really do shape each other rather dramatically over the rest of Eliot's life. He dies in January of '65. He refers to Kirk in his own work. A lot of his own work after that is very Kirkian. He's the one who asked Kirk to write that—I think probably Kirk's either first or second great book—his life of Eliot, *Eliot and His Age*. It was Eliot who asked him to write that originally. So they really did have a strong influence on one another.

One thing I wanted to say, Tom, about this. It's such a great question because Eliot becomes part of the subtitle with the third edition of *The Conservative Mind*. But the emphasis that Kirk puts on him really doesn't change in the text itself. Eliot was there from version one on, and he becomes more prominent, but he's always there, just not in the title right away.

**WOODS:** Oh, I didn't realize that. I thought that maybe he had added more material in the later books, and that's where—

**BIRZER:** He did, Tom. That's right. He did add some, but even at the end of the first book, Eliot is really strong. Much stronger than Santayana.

**WOODS:** Now, I can't resist jumping right into the really, really juicy thing that a lot of our listeners



are going to have a particular interest in. I'm trying to restrain myself, and I just can't.

Now, a lot of people will be familiar with F. A. Hayek's essay "Why I Am Not A Conservative." And I guess I probably realized that he gave that at the Mont Pelerin Society, which was an organization started after World War II for classical liberal economists and other people working in that tradition. But, he gave that, according to what I read in your article "Seven Conservative Minds," as implicitly an attack on Kirk, who was sitting there in the room, who then apparently delivered an extemporaneous reply to Hayek. Do we have his remarks to Hayek? Or is that lost forever? Can you tell us something about this whole exchange?

**BIRZER:** As far as I know, it's lost forever. I've done a lot of searching, trying to find what Kirk said, and I can't find it in any work. Of course he kind of has a little piece, "Why I Am A Conservative," that comes out in 1963, but it's not really an answer, and I can't imagine that's what Kirk said.

We do have a couple—Let me give you the background to this, Tom.

Kirk had really, really liked Hayek's work. Kirk as a younger man was much more open to libertarianism and individualism back in the '40s and '50s. He was very open to it to the point where Kirk, in some of his private letters, especially in the 1940s, comes across as pretty close to an anarchist. He's not friendly towards the government in any way. So there has been a connection with Albert Jay Nock, Isabel Paterson, and some others. He liked Hayek. He was suspicious of Mises from the beginning. He did like Hayek right away. They had met a number of times at the University of Chicago. Kirk had been offered a position in the committee on social thought at least two or three times while Hayek was there. I tried hard, and I have not been able to figure out who was against Kirk, and who was for him, on that committee. The letters seem to indicate that Hayek was the one who was trying to stop the hiring of Kirk.

**WOODS:** Wow!

**BIRZER:** That's what Kirk believed. I haven't found a smoking gun there.

The interesting thing, I think, for our modern debate is that his biggest proponent at Chicago was Leo Strauss. That is Kirk's biggest proponent. And that, of course, that's pretty amazing. They ended up—they had a pretty strong friendship in the '50s and early '60s. Kirk never liked Strauss's students, but he liked Strauss quite a bit. He used to go over and have coffee with him and visit him.

So, the Hayek relationship is very strange, and I can't figure it out. But Kirk also had his best friend in graduate school end up getting his Ph.D. under Hayek, and that was all because of Kirk's influence. That was in the '50s. So, it's a mixed bag. I can't quite figure out what's going on.

But in 1957, Hayek gave that address, "Why I'm Not A Conservative," and Kirk went to that. And he did give a spontaneous rebuttal; spontaneous to the point he hadn't written anything, but he knew he was going to do this. Almost a month before the Mont Pelerin Society, he had been telling friends, "I'm

going to challenge Hayek at the end of his speech, and we'll see what happens." So he'd been thinking about this. It wasn't a spur of the moment thing. But his response may have been spur of the moment, and insofar as I know, it was.

**WOODS:** You know what's interesting about all of this, of course, is that Hayek, in some of his later work, particularly in his work in the 1970s with his trilogy—the *Law, Legislation, and Liberty* trilogy—he's talking about the value of tradition. And he's talking about it, not from the point of view of a conservative, but from the point of view of somebody who recognizes the perils of what he called 'constructivism,' of trying to build a society artificially from scratch.

There are certain aspects of society that seem to have been selected for, in the fact that societies that lacked certain attributes fell away, and societies that have certain attributes have survived. So we shouldn't just carelessly and thoughtlessly make radical changes to society.

Now, even though he's not coming at this from a religious perspective, he is coming at it with a real sympathy for tradition, broadly conceived. So, why wouldn't there have been more sympathy then? As you say, Kirk liked him for some time, even before he got into this work. Why wouldn't Hayek, do you think, have found, at least, a kind of *simpatico*? I mean, why wouldn't he have found a friend in Kirk, and why would he have thought, "It's important now for me to differentiate myself from Kirk"?

**BIRZER:** That's such a great question, and I wish I could answer that. There are a couple of things going on, I think, one in the background, and one in the foreground, that really matter.

The one in the background is that Hayek is already a very established senior scholar with an incredible reputation throughout the Western world, and Kirk is still in college. So Kirk is always—and he will always have been—we think of him as an old guy. I think you and I are about the same age, Tom, and he's two generations ahead of us. So we always think of him as the "older" Kirk. But it's important to remember that, when he challenged Hayek, he was what? Thirty-seven. Hayek was probably in his sixties at that point. So there had to have been a bit of generational rivalry. I'm sure Hayek thought, in a sense, "Who's this upstart coming at me? This young guy who's kind of blustery, coming from Michigan, of all places. He's not even a Yale guy or a Harvard guy."

So I think that was probably part of it. I also think that Hayek just bristled at the term "conservative," because he thought in terms of German conservatives. And, I think that was such a different tradition coming out of central Europe versus coming out of middle America, coming out of Michigan and the Great Lakes area.

But the thing that's in the forefront of this debate, that I find really interesting—and, again, I love your question, Tom. They both loved Burke. They both loved de Tocqueville. Kirk comes to love Acton. Of course, Hayek always loved Acton. Kirk is moving toward Catholicism; Hayek is moving away from Catholicism. So they would have, at some point in their own faith, they would have had to overlap as they were moving in different directions with one another.

But Kirk always had that profound respect for the common law, and for the Anglo-Saxon tradition, which Hayek did, too. They really were both old Whigs, in a very important sense. But I do think, in the end, it probably comes down to the American versus the central European. I don't mean to historicize them, but I did think that there is an element of that, and the generational difference is significant, as well.

**WOODS:** Apart from *The Conservative Mind*, have you been able to gather from your reading of Kirk what he considered to be his most important works?

**BIRZER:** Yeah. There are a number of things he wrote in the '50s that have been neglected, that I think are unfortunate, that I think are better than *The Conservative Mind*.

I love *The Conservative Mind*; I think it's great. I love seeing the evolution of it. But there are other books he wrote with a bit more of what I call a "white heat." There's an anger and a righteousness that I find quite compelling in his book *Program for Conservatives*, which was 1954. His book on academic freedom in '55.

And then he had a book that has been almost completely forgotten called *The Intelligent Woman's Guide to Conservatism*, and it is a deeply personal—I would say it could have easily come out of the best of Vatican II. It's an incredible look at Christian humanism. I should say it's an incredible Christian humanist look at the world. And Kirk had thought, after *The Conservative Mind* came out he really thought, that he would go in the direction of writing about Christian humanism, and that would be his direction.

He was very suspicious at the time that conservatism would not provide any answers for the future. It was a great achievable task, but it didn't allow for any kind of solutions for future problems, and he had really outlined the whole comprehensive guide to Christian humanism that I think has a lot more in common with people like Romano Guardini and Gabriel Marcel at the time, Christopher Dawson—than really it has with some of the other conservatives like Peter Viereck, who were writing.

I think Kirk just had a sense, especially as he was moving toward Catholicism, he had a sense that somehow there had to be a philosophy of the human person. That, of course, we would see later. I don't want to make this hint he anticipated John Paul II, but in a lot of ways, he really did. And, of course, a lot of writers of the '50s did, and Carroll. He was very influenced by writers from that time, so I think there is a connection.

**WOODS:** My personal—well, maybe not my favorite, but one that I like, and that's overlooked a lot, is his book on Randolph of Roanoke, which I thought was a nice work, a biography. And if anybody doesn't know, John Randolph of Roanoke was the Chairman of the Ways and Means Committee in the early nineteenth century. He was more Jefferson than Jefferson. He really was the conscience of those people at that time.

**BIRZER:** Absolutely. That's such a great book, and, of course, Tom, remember he was 22 when he wrote that book.

**WOODS:** Yeah, I know. It makes me feel like a lazy bum. I wasn't anywhere near considering writing a book when I was twenty-two years old.

**BIRZER:** Yeah, well, you've made up for it since.

**WOODS:** I appreciate that. Now I do want to talk more about the libertarian thing, because Kirk did have a period where he was highly, highly critical of libertarians, and I think that's why people like Rothbard didn't think much of him. But somebody like Frank Meyer at *National Review* I think straddled both camps and could see value in both. But what was the nature of the Kirkian critique of libertarianism, and did he ever back off from it?

**BIRZER:** I have all kinds of Kirkian friends who would disagree with me very strongly on this, and Annette Kirk would disagree with me on this, too.

I don't think Kirk ever actually lost his libertarian views. I just don't think he liked the label, and I don't think he liked a lot of people who were associated with libertarianism. He had been—as I mentioned earlier, as a young man, he had had a nice correspondence with Albert Jay Nock, and with Isabel Paterson. Paterson especially liked him and was writing articles about him even when he was—it was World War II and he hadn't published anything. She had featured him a number of times in her own articles in the *Herald Tribune*, and they had had a strong friendship.

Nock, of course, died in 1945, just right after Kirk had started writing him, and so they had a nice correspondence, but it didn't last that long. It was certainly only about a year long. But Kirk had read everything of Nock and been very influenced by him. And he'd been really interested in Paterson's ideas, too.

In fact, I'm pretty convinced that a lot of Kirk's own religious understanding and his mysticism are deeply related to Paterson's own understanding of energy. And, we could get into that topic. Paterson in *The God in the Machine* has this very interesting notion about how energy—it almost sounds New-Agey, I think now in 2013—But she had an interesting idea about energy coming together. It was very Epicurean, and Kirk was really taken with that. He applied that later to the Shroud of Turin and his own understanding of what had happened there.

But the point I want to make is that Kirk had really been strongly what we would call libertarian. And something in 1953 changed. He had a falling out with Paterson, and, of course, Nock was now dead. But Kirk was also writing for *The Freeman*, and he wrote some interesting things in the earliest part of *The Freeman*, or at least the revival of *The Freeman*.

But then, there was that attack on him by Frank Meyer, first in *The American Mercury*, and then in *The Freeman*, in 1953, and then again in 1955. I think for Kirk this was very personal, and he was not forgiving about those kinds of things. In fact, the most vitriolic thing Kirk ever wrote, even more so than what he wrote of libertarians later, was a piece he wrote about Frank Meyer in *The Sewanee Review* in 1964. It is so scathing, and so unlike anything else Kirk ever wrote, that it's actually a little awkward to read.

**WOODS:** Wow! I didn't know anything about this.

**BIRZER:** Oh, it's only a two-page piece. It's called "Ideologue's Folly." I'll send it to you, Tom, and you're welcome to post it.

**WOODS:** Oh, my gosh. Okay.

**BIRZER:** You can just tell that this is so personal. It has almost nothing to do with ideas; it has everything to do with Kirk being really ticked off. And I think Kirk was overall an incredibly humane man. If you go back and read his letters, you get a feeling and especially concern. He is a man of the '30s and the '40s. There's no prejudice there at all. You'd have to dig like mad to find anything that would be remotely anti-black, or anti-Jewish. He was an incredibly tolerant person, but when it came to certain personal attacks, he was a bear. I would not want to be on his bad side, and I think, for Meyer and Rothbard—and we know this now for certain—that Meyer and Rothbard both undermined Kirk when Kirk was applying for Volker.

**WOODS:** Wow!

**BIRZER:** I think, personally, there's a lot in Meyer and Rothbard I really like, and I have no problem being called a libertarian. I've got a very strong libertarian background. But I think Kirk—for him, it was deeply personal, and so even, if you remember, Tom, at the beginning, one of those two bitter pieces he wrote on libertarians, I can't remember which one right now. But he puts himself with Hayek; at one of those he says, "Look, I'm with Hayek. We're not libertarians." And it's very interesting that he would say—and this was in the '80s or '90s—probably mid-'80s when he was writing. So, he's identifying himself with Hayek, but he's clearly taking on people like Rothbard.

So I think there is that element, and so when you have this—of course, you and I were pretty young at this point; we were right out of college when this was happening. But when you start getting meetings like the John Randolph Club that were trying to bridge, to go past some of the mainstream groups like Philly Soc and try and bridge some of those traditional libertarians. Kirk was invited, but he didn't go. But, one of his closest friends, Peter Stanlis, went. And Peter was doing stuff with IHS, he was doing stuff with Rothbard. And Kirk didn't have a problem with that at all. Peter was still his great friend. So I think it wasn't even personal in the sense—you can still be friends with that guy, but I'm not going to. So, if that makes sense, Tom, I think for Kirk these guys were just—especially Rothbard—they had undermined him, and he thought they were trying to create conservatives that were akin to something, as he would have thought, ideological.

**WOODS:** For the sake of my transcriber, and anybody who is not into the inside baseball, Philly Soc is the Philadelphia Society. That's how we talk around here.

All right, now we're getting into the '80s and '90s, and this is going to bring up the ascendancy of the neoconservatives. How did Kirk fit into that? By and large, how did the neoconservatives think of him?

As sort of an educated elder statesman? Of course, he gets into some trouble because of his foreign policy views in the early '90s. So what happened then?

**BIRZER:** Yeah, that—that's a sticky story. Kirk, of course—

Just to give a little bit of background here, Thomas, if you don't mind.

Kirk had originally founded *Modern Age* as a way of actually defending Strauss. It's more complicated than that, but there had been some attacks on Strauss that Kirk thought were unfair in the early '50s. He thought it had a lot to do with the Jewish background with Strauss. And Kirk hated it. It offended his sensibilities, and part of *Modern Age* was to defend that.

And when *Modern Age*—he founded it actually in '57; he'd been trying since '54. He actually got the first issue out in '57, and then he was the editor up until '60. He had had an agreement with Regnery in Chicago. Regnery didn't want Kirk spending his time doing the day-to-day editing of the journal, so he hired a board and some people. For Kirk, for his part, this was personal. He didn't like losing control, but he also thought that so much of what was going on in the editorial board was anti-Semitic.

So Kirk was never rah-rah Arab or rah-rah Israel, even though there were a lot of people in the '50s and '60s who were taking sides on that. But Kirk just wasn't that concerned with the issues. He was much more concerned with a broader foreign policy—what do we do? His foreign policy would be, I guess, pretty similar to what yours and mine is. You know, we need a military, but it doesn't have to be everywhere around the world at all times. So, he had, I think, what we would call at this point a very traditionalist understanding of foreign policy, but it wasn't pro-Israel or anti-Israel in any way.

He liked the neocons in the '60s, and he liked them in the '70s, for their actual good social science they were doing domestically. So Peter Berger and some others who were doing things on crime and family—he was pretty interested in that. But when they became really powerful in the Reagan administration, and especially in the second term, with foreign policy, Kirk was pretty upset about that. And, of course, I saw the interview with you and Rockwell, Tom—with Lew Rockwell—where he said he had gotten a letter from Kirk in '91, how Kirk thought that George Bush should be strung up on the flagpole. [Laughter] I laughed so hard.

**WOODS:** Does that sound like him to you?

**BIRZER:** Well, being funny, of course.

**WOODS:** But I mean something like that in private correspondence. I've never read any of Kirk's letters. Are they filled with unexpected things like this?

**BIRZER:** Oh, so funny. He was unbelievably funny on those kinds of things, and stuff you might be surprised about. He was quite curious.



For example, in 1973, he was debating whether he should go to Wounded Knee, South Dakota to help the Indians. I think it's all part of his being not only anti-government but also very pro-humanity. Which side would I be on? Would it be worth it to get in jail for a bit? What would happen to Annette? My daughters? You know? But the thing about Bush, I'm sure was just a joke.

**WOODS:** Of course, but it shows what his sympathies were at that point. Where he came down.

**BIRZER:** Yeah, and he had a great love of Reagan, from the beginning to the end. He knew Reagan had his flaws. It wasn't the love he had for Goldwater. Kirk was a Goldwater man, inside and out. Reagan was not Goldwater, but he was still great to Kirk.

I think that Kirk thought one of the things Reagan did so well that Bush did not do, is that Reagan always had self-restraint. Not with Iran-Contra, but with his overall presidency. He knew when to back down; he knew when to be strong, and he thought Bush lacked that. He thought that Bush was very dangerous, and he thought Clinton was the same. The two were very dangerous because they were going to get us into a war very easily, in large part because of ego.

And he felt what the neocons were doing was fueling that ego. They were playing into it for their own agenda, in terms of foreign policy, and it's really hard, Tom, I think. I'm with a lot of these people all the time, especially at Hillsdale, and I like them very much, but you look at a lot of these neocons, and I think that what—almost exactly what—Kirk predicted would happen with the first Gulf War and our involvement in that area of the world has really played itself out. I'm quite sympathetic, but at the time, I was pretty hardcore pro-Reagan.

**WOODS:** Yeah. Me, too!

**BIRZER:** I wouldn't call myself a hawk, but I have no problem with a strong military, I just—as my friend Winston Elliott likes to say, “It's one thing to knock someone around when they've knocked you around first; it's another to try to move into their house and tell them how to live.” Looking back at Reagan, I think that was kind of what Reagan was doing. Whatever errors he made.

So I think Kirk appreciated the kind of foreign policy that came out of a Coolidge, or an Eisenhower, or a Reagan, though he didn't like Reagan's millennia language. But other than that, I think he was very fearful of what Bush would do, and what Clinton would do. And I think he was right about it, frankly.

**WOODS:** In *The Conservative Mind*, what is the criticism, a very Burkean criticism, that Kirk has of ideology, as he understands that term? What's wrong with ideology?

**BIRZER:** Yeah, his view of ideology—and it's very similar to Adam Smith's in the second edition of *The Theory of Moral Sentiments*, where Smith is criticizing the whole idea of a “man of system” and most likely was influenced by Burke on that because of their friendship—

Kirk was very convinced, with I think Hayek to a certain degree as well, that there has to be—that anyone who is right-thinking, anyone who believes in first principles, right reason, that there has to be a humility involved in that, that we have to be willing to recognize. And this is, of course, a very traditional liberal arts view, but we have to be willing to recognize what we don't know, and not just what we know, and not be titillated by what we know, and also to realize that there are things we just don't know.

And Kirk's criticism of ideology was that it was essentially a modern religion, and it could be on the left or right. Kirk didn't actually like those terms. He never talked in terms of left and right. It was always man/anti-man, God/anti-God.

Only a few times was he explicit about, "there's no such thing as right-wing," but Kirk was pretty concerned with that. But he thought that, like Dawson and some of these other Christian humanists of the era—Guardini and some others—this was really a kind of a duping of a population by claiming that there is a left/right, and that ideology played into that idea of making us look at the horizon rather than at the vertical, looking up toward the transcendent. So there's an arrogance and a false religion in the belief that you or I or you and I together or you and I and some other people get together and somehow systematically figure out the world, and plan it accordingly, and that is for Kirk.

I think it was probably more religious for Hayek. It was not religious, it was more rational. But the belief for both of them was we just can't plan these things and the idea that we can sit around and—even if it's democratic capitalism or communism—that we could just plan it out and fit all these people into a little square peg or whatever it may be, some kind of slot. It's unhealthy. It's hubristic, ultimately, but it's also just going to fail. There's ancient Stoicism in that. I hear when I'm reading—Kirk, of course, loved the Stoics. I know Hayek did, too. But there's a lot of Marcus Aurelius in that. There's a lot of fear of just putting yourself at the center of things. So, Kirk—he read that in Burke. And he didn't come to Burke until he was in his late twenties. He had been introduced to Burke by reading the new humanists, by reading Irving Babbitt and Toliver Moore, but he, himself, had not read a lot of Burke until he started writing his dissertation. So, in the late '40s, when he was in his late twenties, early thirties, that, I think, just resonated with him. And he uses it pretty strongly, but I understand that a lot of it for Kirk was just an anti-arrogance, and anti-hubristic device.

**WOODS:** Okay. Now the flip side of this thing, then, is that, for Kirk it would be horrendously wrong to think of conservatism as just a counter-ideology: you've got your systematic overview of the world, and we have ours. But, just to play devil's advocate here, it seems to me—now maybe I'm being unfair, and if so, I want you to tell me—that this could be one of the reasons that today it's so hard to nail down who's a real conservative. Is that guy a real conservative? "Look, no, I'm a real conservative, so I'm against the war." "No, I'm a real conservative, so I'm for the war." And it's like nailing jelly to a wall precisely because it's not like libertarianism where there's one principle—non-aggression. And yeah, we have libertarians who say, "You're not a real libertarian," but we have much less of that than we do among conservatives. Does this come back to the fact that conservatism itself doesn't want to be a series of propositions?

**BIRZER:** Well, I'm like Kirk. I'm very convinced that libertarianism is just as anti-ideological because of the Hayekian strain, and the reliance upon the discovery process. We can never predict what's going to be discovered next. We might have a guess; we might have a clue, and we might work at it, but we have to allow that process to take its place. Kirk, I think, he was so—this fits into so many questions, Tom, and I'm glad you're asking it. But it really does come down again to that personal element we talked about with Meyer and Rothbard for Kirk, but he certainly did not think conservatism was a counter-ideology. It was always to be based on a set of principles. Those principles, however, varied and the kind of conservatism that we might find in Iraq would not be necessarily the kind of conservatism we would find here.

You know I grew up in Kansas. And even in Kansas and Michigan, there would be different ways that it would be playing out. And I think Kirk knew. I think there was a suspicion in him that especially in the '50s after *The Conservative Mind*, he was worried that, with his own popularity, and with the popularity of the term "conservatism," that it would become rigid in some way. It would not be organic and flowing, and that's why I think he thought we needed to go toward more of a Christian humanism than an actual looking at left/right, conservative/liberal, whatever it may be.

But, for what it's worth, Tom—and this is a hard topic for me because I don't think libertarians are ideologues. In fact, I think they are very, very strongly anti-ideological and are principled. I've met libertarians who, of course, are ideologues in the same way conservatives can be, too—But I think libertarians carry out that Kirkian principle better than most conservatives do.

**WOODS:** Brad, I've already kept you longer than I've ever kept anybody in the history of the program, but I do want to ask you a couple more things, if that's okay.

**BIRZER:** Sure.

**WOODS:** I remember reading—I had to dig through microfilm to find it—a newspaper column in which Kirk referred to the automobile as a—do you know?

**BIRZER:** As a modern Jacobin?

**WOODS:** Exactly. It was a mechanical Jacobin.

**BIRZER:** It was a mechanical—a mechanical Jacobin.

**WOODS:** Because it would uproot you from your traditional community. Now, I'm not sure that's a kind of—I mean, there was a time in my intellectual development when I wouldn't have said, "I don't want a car," but I would have said, "Man, that's hardcore. This guy's hardcore." But now, I've gotten to a point where I say, "Well, you know, some communities are crummy and I do want to get away from them."

**BIRZER:** Yeah, that's like you again, growing up in the '80s in Kansas. Cars were everything, so I have a hard time with that one, too, and I love my car. But I think Kirk's argument, I understand it. It's this

desire and—and he did live it; that’s one thing you can say about Kirk.

**WOODS:** Oh, yeah. Yeah. He never learned how to drive.

**BIRZER:** He did drive in the military. He drove a Jeep during World War II.

**WOODS:** Oh, okay. But in civilian life, people drove him around.

**BIRZER:** No, that’s right. He wouldn’t use interstates ever. He would not allow people to ride on an interstate, if he was in the car. He had strict rules about these things.

**WOODS:** [Laughing] That’s awesome.

**BIRZER:** Well, no, it’s so eccentric. But you know he was also—he didn’t like TVs, and I’ve got stories about how he came across one of his daughters who had a Metallica album and he burned it. I mean he didn’t like any of this modern stuff, but he also—this is a guy who hated writing longhand, and almost every single thing he wrote was typewritten. And I think he would probably have been one of the first to have embraced a laptop or an iPad. So I think there are certain technologies he’s totally fine with. It’s not an anti-technological argument as much as it is a kind of—and I’m not; you can tell I’m talking to you on my cell phone, and I’ve got my Mac right in front of me. You know, I don’t know how many albums I have in iTunes, so I’m not the right guy necessarily to defend this—but I do understand that he thought there were certain technologies that were humane, and others that were not, and he wasn’t necessarily willing to employ socialized authority to stop those, but he thought that we could get enough people to buy into whole milk. He was really environmental in the ‘50s and ‘60s and ‘70s. Do organic farming, and he was really into that, and planting trees. And that was all voluntary. It was all stuff he wanted to do on his own, and he wanted to encourage other people to do, but he was certainly reluctant about technology, there’s no question about that.

**WOODS:** All right. Before I let you go, I want to know why do you think somebody in the year 2013, whether conservative, libertarian, or whatever, why should somebody read *The Conservative Mind*? What are the valuable sorts of things that you’ll be impressed by as you read it?

**BIRZER:** Well, I’ll give you three answers. I’m just thinking of this spontaneously. I hadn’t planned on your asking this, Tom, so I’ll give you three answers.

**WOODS:** Well, we won’t declare this as your final, for-all-time response.

**BIRZER:** Thank you. This is not like *Jeopardy*. [Laughter]

I would say, number one, it’s beautifully written. There’s nothing Kirk writes that’s not beautifully written. I mean, he’s got his own style, a very archaic style, I think, but he was raised on Gibbon and Sir Walter Scott, and it shows. There’s a quality to his writing that’s just lacking from most people today. So, every

time you read him, I think you get a good liberal education in and of itself. I realize that's not specific to *The Conservative Mind*. But I do think he does that really well in *The Conservative Mind*.

The second thing I would say, and this, to me, is the most important aspect of *The Conservative Mind*—he shows that there is a humanity that is not just political, and I think that this is where he and Nisbet are so great in the '50s, by really demonstrating that if you want to understand what conservatism is or what we believe, it's not something that's just going to happen in D.C., or in Topeka, or in any of these governments. It might happen in La Costa. Or it might happen in Hillsdale. It's going to happen with private associations. That, I think, is critical. So Kirk, he knew right away, as a young man, we can't just stress the political. It has to be more than that. So, I think that's really good.

But the other reason I would say, Tom—my final reason—would be that you're really introduced to a lot of fascinating people. So how many of us really remember Irving Babbitt anymore? And, yet, there he is. Or Paul Elmer More, who, I think, is tragically forgotten. I think we—those of us who are not liberals—the fact that we don't read Paul Elmer More more often is really to our shame. This is one of the great American cultural critics of the last hundred years. And Kirk, I think Kirk got that. I think he knew there was this kind of lineage that we needed to tap into. So there's a beauty in *The Conservative Mind*, but, you know, I tell students when I lecture or I go and I do something with say the Fund For American Studies, Roger Ream's group—I love them. Of course, they're mostly dealing with politicians in D.C. I tell them, if you're a policy wonk and you're expecting to find answers, you're not going to find them here. That's not what Kirk is providing at all.

**WOODS:** Well, Brad, we're going to put a link to your article on *The Conservative Mind* in the show notes, but then, tell me, what else? If people want to follow your writing, or your other activities, where would you direct them?

**BIRZER:** Thanks, Tom. That's a nice question. I've got a couple books out, almost all intellectual biographies, on J.R.R. Tolkien, on Christopher Dawson, on Charles Carroll of Carrollton, one of the signers of the Declaration of Independence, and I'm currently working on this book on Russell Kirk, an intellectual biography which will be out, hopefully, next fall, a year from now, with the University of Kentucky Press. So you can find anything on Amazon, or ISI Books has a lot of my stuff. My current writing, and things where I've talked about you and some of your ideas as well, most of my current writing I do for Winston Elliott's [theimaginativeconservative.org](http://theimaginativeconservative.org), which he and I founded about three years ago, and I'm proud of what we've done with that. It's Winston who's done all the marketing and the business aspect, and I've done a lot of the writing. So, if people are interested, Tom, that's where I would turn them, to [theimaginativeconservative.org](http://theimaginativeconservative.org). That would be the place.

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# The Paramilitary Police

## Guest: Will Grigg

### December 3

*Will Grigg runs the Pro Libertate blog – [freedominourtime.blogspot.com](http://freedominourtime.blogspot.com) – and is the author of several books, including **Liberty in Eclipse: The Rise of the Homeland Security State**.*

**WOODS:** I want to start off more generally, and then get into some specific cases of items you've been tracking. When I was growing up as a kid, I was suspicious of government, I didn't believe what they told me, and I didn't support their farm subsidies, and all that. But, when it came to the local police, I felt like if you don't give 100 percent, unconditional support to the local police, then you're some kind of commie. And I don't think I'm the only one who feels that way, who now feels like I've been burned, like I shouldn't have been so stupid and naive. Now, do you think that over the past twenty years or so as I've come of age, is it just that I've gotten wiser, or have things just noticeably gotten worse?

**GRIGG:** It really is something of a predicament to decide which of those two propositions is true. Are the police more abusive today? Or are the abuses simply more visible because of the advent of decentralized information-gathering and publicity through YouTube and social media?

I suspect that we're dealing with a little of each of those. And, like yourself, Tom, I'm somebody who, perhaps two or three decades ago, had a rather winsome perspective on the local police.

I was somebody who subscribed entirely to the concept of Officer Friendly, in large measure because as a young man I aspired to become a police detective. I spent a great deal of time in the company of law enforcement officers. I'm talking about municipal police or sheriff's deputies. I actually studied that for a while academically.

One of the things that I've come to conclude is that starting probably in the early 1970s and then accelerating dramatically in the early 1990s, you had a sort of forced-draft recomposition of the police culture, the law enforcement culture, where some of the things that were obvious even then, some of the trends that were unfortunate, were amplified dramatically. That would be, of course, the militarization of police tactics and hardware, and, more importantly, the militarization of their mindsets.

But, like yourself, Tom, I'm somebody who considers himself to be somewhat chastened at the memory



of some of the attitudes I had about the police decades ago. And I should have been paying more attention. Somebody once said—and I can't remember who—that a conservative is a liberal who's been mugged by reality. And you could say that a civil libertarian is a conservative who's discovered that the police are not our friends.

**WOODS:** And, as I say, I'm kind of embarrassed now when I look on it, how silly I was in the past. That's not to say you can't find honorable people in every profession, blah, blah, blah, but the fact is that a government employee is a government employee. You're not supposed to have an "I'm going to salute" type of attitude. You have to have a skeptical attitude.

What do you think has been driving it? Is there a factor that accounts for it? Is it that they've been, little by little, seeing what they can get away with? And they've grown to conclude they can get away with an awful lot, because no one responds? Is it the drug war that's the driving factor? What accounts for this, do you think?

**GRIGG:** The drug war, of course, I think is a very important breaking point between what had existed before about 1971 or '72, and what we have now.

This is something that was declared by the Nixon administration for reasons of cynical political opportunism. They wanted a wedge issue generationally. They thought that going after the stereotypical denizens of the drug culture would have multiple benefits, multiple impacts that would be beneficial when you're talking about their Southern Strategy in appealing to the so-called silent majority.

I think they used that as a way of rebranding their effort in law-enforcement-friendly terms, law-and-order terms that would appeal to blue-collar ethnic Democrats. As a result, you had the SWAT concept that had been pioneered back in 1968 in LAPD, using a concept that had actually been field tested in Vietnam.

That's an important aspect of the story, too, I think. The SWAT concept really took root and flourished—that would have been about 1971, '72, or '73 or so—and then a generation later, you had an escalation under Bill Clinton, who came from a rather different social cohort than Richard Nixon had in terms of his personal behavior and his personal acquaintance with drugs. But they militarized the war on drugs dramatically during the interim.

Yet George H.W. Bush, as the vice president, somebody who had been an employee of the CIA—which is the world's largest drug cartel, as far as I can tell—in the 1980s presiding over this effort to carve out exceptions to *posse comitatus* to allow direct military involvement in drug interdiction efforts.

Waco was another important milestone, if you will, because they used the drug nexus by imputing to the Branch Davidians the supposed involvement in methamphetamines. They were actually very much opposed to methamphetamines, and other narcotic drugs. But Governor Richards of Texas, taking advantage of one of the *posse comitatus* exceptions that had been pioneered by the Republican presidential administration in the 1980s, so that there was a drug nexus to the investigation of the Branch Davidians, which

allowed her to get special forces involved directly in planning the ATF raid, which she authorized—the Federal ATF raid—and the subsequent FBI siege of the Branch Davidians.

And a couple of years later, you had Janet Reno, who distinguished herself by immolating the Branch Davidians in April 1993, creating the LESO program, the Law Enforcement Support Organization program, which is used to send surplus war hardware from the Pentagon directly to local law enforcement bodies.

So, I think that's driving this to a large extent. Rather than defining the needs and finding the technology that might be suitable, because all this hardware is available from the Pentagon, you have police chiefs and county sheriffs saying, "Because the hardware's available, we'll reconfigure the mission to meet the availability of the hardware."

And so they get all kinds of military and war-grade munitions from the Pentagon. They have Special Forces operators training their SWAT teams, their tactical teams. And suddenly, rather than seeing themselves as peace officers, you have police officers and deputy sheriffs seeing themselves as combatants fighting a counterinsurgency war that's a 360-degree battle zone. And that started the development.

**WOODS:** You know, Will, I had Carla Gericke of the Free State Project on the program not too long ago. And, of course, you know that the authorities there in Concord, New Hampshire, wanted to get—and apparently did get—an armored vehicle because they needed to protect themselves against the terrible Free Staters, and all these other domestic threats.

Let's talk about the article you wrote about a place probably no one listening to this program has heard of, the 5000-person town of Preston, Idaho. You would think, given that Preston's a fairly tranquil place—there's no violent crime there—they wouldn't need a militarized police force. But I love the way you explain how the police chief says that this is precisely why we need to make sure that we have this sort of militarized force, that you might be deceived into thinking that there's no prospect of violence here, and that you'd be wrong.

Can you tell us about this? Because I think that is such a classic, illustrative example—what's going on in Preston—of what's going on in many neighborhoods.

**GRIGG:** I agree with you, of course. Some of your listeners might be acquainted with the film *Napoleon Dynamite*, which is a whimsical and eccentric film that came out about ten or eleven years ago. It depicted this little town in southeastern Idaho, which is where I grew up—not in Preston, but in southeastern Idaho; I grew up in a very similar town to Preston.

And, as you point out, Tom, there is no measurable violent crime in Preston, Idaho. It's culturally homogenous; it's rural. If any place in the western United States would meet this description—the nearest equivalent to the mythical Mayberry you are likely to find.

Sheriff Taylor, of course, did not have an MRAP, which is a mine-resistant, ambush-protected vehicle,

and he gave one bullet to his deputy, and he was very, very leery about the disposition of that ordnance when he gave it to Deputy Sheriff Fife.

Chief Geddes really should not have a police department to begin with. They don't need a police department in this town of 5000 in southeastern Idaho. It's the county seat of Franklin County, which means that the sheriff's office is right there. But Chief Geddes, like several other police chiefs here in the state of Idaho, found out through this 1033 program—that's part of the LESO program I referred to earlier—that these MRAPs were being made available.

There are about 2,700 of them that the Department of Homeland Security has now made available for domestic use, so we filed an application and got one for quote/unquote "free," as he put it to me. "It's free. Granted we don't have a whole lot of violent crime here, but you can never tell when we're going to have a Columbine erupt. Or perhaps we'll have some kind of a siege involving some restive splinter faction of the patriot movement, or some such nonsense might erupt here in Preston."

"Besides that," he said, rather prickly and defensive as I asked him these questions, "Why aren't the people in Preston this important? You are seeing MRAPs being delivered to police departments in Nampa, Idaho, which is about eighty thousand people, which is not a very big city, not a very high crime rate. And in Boise, they just acquired an MRAP. That's a town where the violent crime rate has gone down every year since 2000, and it was less than half the national average in violent crime terms to begin with. So why are these people more important than the people in Preston?"

I tried to point out to him, well, you're not dealing with technology here that would be terribly beneficial to the public at large, because this would shield the officers. It would conduce to officer safety, which is the highest priority, apparently, for every law enforcement department in the country.

And he's trying to say that, by making the officers safer, you're making the public safer, and, of course, there's a disconnect there. It's an undistributed-middle argument, if you will. It depends upon what the officers are doing, whether or not making them safer will make the public safer.

His rationale was, "It's free to the taxpayers." But that's not true, since they have to maintain the thing. It is a tremendous fuel hog; it gets less than five miles to the gallon. You have to train people in maintenance. And you have to invest some money in the upkeep of the vehicle itself. But, because it was free, he got one.

The same thing happened with Nampa. The Nampa police department got one. And the Boise police department recently got one. They're being given away to even smaller county sheriffs' offices in rural counties across the country, and so forth.

And this is, once again, a really good example of how the technology is driving the perceived need. These people were crying out for militarized hardware to deal with a violent crime problem. They are trying to define a problem in order to justify the acquisition.

**WOODS:** I'm not trying to be flippant here, but doesn't it seem that, according to his reasoning, there really would be no reason for any place in the country, any police department, not to have one of these? Right? I mean, if Preston gets one, why wouldn't any old backwater get one? And I don't mean that to insult Preston, but, for heaven's sake, it's not exactly ground zero, so to speak, of danger in the country. Right?

**GRIGG:** Yeah, if it will play in Preston, it should play anyplace else. So they've really set a marker here that's, I think, alarming, or should be considered alarming. If you have a town of 5000 with no measurable violent crime rate, then militarize the police department there, then I suppose the question is, "If it's like that in the greenwood, what's it like in the dry?"

**WOODS:** All right, Will. Let's shift gears here. Tell us what happened in Deming, New Mexico not too long ago, with a guy named David Eckert. What happened to this guy? And was he asking for it?

**GRIGG:** I'm persuaded that David Eckert was singled out for retaliation because he had committed contempt of cop in September of last year. He has become famous in one of the most unimaginable ways. He was subjected to object rape at the orders of the police last January.

He was stopped after supposedly rolling through a stop sign as he pulled out of a Walmart parking lot. The police officer, who allegedly witnessed this violation, did not stop him, but radioed ahead to another police officer who appears to have been lying in wait for Mr. Eckert. He appears to have been under surveillance. And within a few minutes after he had refused a citation for this moving violation, he was told he was free to go, and they pulled the infamous Detective Columbo routine—"Oh, just one more question I'd like to ask you."

And then it happened in September of last year, just a few blocks away from his house. He lives in another town just outside of Deming, in a different county. He was stopped just short of his house, and the police officer said, "You've got a cracked windshield. I'm going to write you a warning citation, and you're free to go." And as he turned to go, Eckert was given that Columbo routine once again. Oh, just one more question.

Eckert said, "You said I was free to go. I have no intention of answering your questions. Goodbye."

And the police officer professed to be offended and said, "That was rude, so now we're going to search your car. We're going to search your person for narcotics." So he called in a canine dog, and they seized his car and kept it for a day. They searched his car. They searched his person. Found no weapon, no narcotics. That happened last September.

In January this year, the same kind of thing happened, but this time, they brought in about a dozen or more police officers from three separate jurisdictions, including two who were part of a federalized, multi-jurisdictional narcotics enforcement task force, which is headquartered there in Deming, New Mexico.

Now this is a town of about 20,000 people, I think, and it's afflicted with an outpost of the Homeland Security Department that's involved in the border narcotics enforcement team run by Homeland Security. So you have a couple of people who are cross-deputized to this federal task force, one of whom is a canine operator with a canine that isn't certified to conduct drug tests in New Mexico, as it turns out.

But they once again seized his car and seized his person. They said that he was not under arrest, but he was handcuffed and put in a police vehicle and not allowed to call anybody. Which means you're under arrest. They obtained a warrant from Deputy District Attorney Dougherty there, and they requested permission in the search warrant not only to search the car, but to search the person of Mr. Eckert.

Why was the search of his person warranted? Because one of the people with this task force said that Mr. Eckert was known in the county where he's from to be somebody who smuggles narcotics in his rectum. Now, this was either a rumor, or it was a lie, but in neither case does it constitute probable cause. But it was taken as if it constituted probable cause. So he was taken in Deming to an emergency treatment facility—an emergency room, basically—and the attending physician said, "I'm not going to be any part of this. I'm not going to take part in this because what you're doing, it's illegal, it's unethical, it's unconstitutional, it's immoral, and it's wrong, and I'm not going to cooperate."

So the police officers called the attorney, and he suggested that they go to another town outside the county, where, apparently, they have a standing relationship with people in the emergency room to do this kind of invasive search of a person's body, because they've done this on at least one other occasion.

So, Mr. Eckert was taken out of the county, meaning the search warrant was invalidated. The search warrant was issued for the hours of six o'clock in the morning until ten o'clock of the evening of the day of his arrest. It wasn't described as an arrest, but by the time he got there, it was almost nine o'clock, and he underwent an abdominal X-ray that cleared him. There was nothing to be found, not for lack of looking, of course, I specify.

Not being satisfied with this, the police demanded, and the medical practitioners carried out, several invasive digital probes of his body cavity, and then several forced enemas, and ultimately a colonoscopy, which is an invasive surgical procedure. This all took place after ten o'clock in the evening. Once again, outside the county.

Assuming that the search warrant was valid—and it wasn't; it was based on rumor—the search warrant was invalidated by the place where they had taken him, and the fact they had transgressed the limit—the time limit. They kept him for 14 hours and forced him to undergo all these involuntary probes of his intimate anatomy, which means this is rape. Anytime somebody probes involuntarily, and without any kind of legal justification, the intimate anatomy of another person, it's a form of object rape.

And the crowning indignity was that after he was released from the hospital, and he had to endure the mocking and derisive comments of his captors, Mr. Eckert went home, and he started to receive bills from the hospital—\$6000 they expect him to pay, for the privilege of being subjected to this procedure,

which once again, is tantamount to sexual violation.

Now, Deming, New Mexico is an interesting little town in that, as I pointed out, you've got this node of the Homeland Security state and this border enforcement and narcotics enforcement task force, which, about five or six years ago, came under scrutiny by the Department of Homeland Security because the people running the local outpost on the war on drugs were embezzling taxpayer funds, and then allowing so-called controlled buys of heroin that were in no sense controlled. They were double dipping or triple dipping into various accounts in order to pay off a protected drug dealer as a supposed confidential informant, but would use that informant to build up the statistically impressive number of arrests and so-called controlled operations, but is allowed to bring the heroin across the border from Mexico and then simply sell it.

This was simply the price of doing business there in order to help their careers prosper. And the whistleblower who reported what was going on, of course, was fired by ICE, the Immigration and Customs Enforcement Department in the Homeland Security Department. And there was no punishment meted out to the official miscreants who were conducting this little scam there in the town of Deming. But that's the task force that employed at least two of the so-called local police officers who were involved in this horrible episode of grotesque sexual abuse of an innocent man.

It's the sort of thing—the sort of abuse—that is begotten plentifully by the so-called war on drugs. It's actually a fairly common thing, Tom, to see people who are pulled over for routine traffic violations find themselves on the receiving end of this type of treatment by police.

There have been several episodes in Texas involving roadside body cavity searches of women after routine traffic stops, and there are several cases I've reported out of the state of Utah in which people have been forced to undergo involuntary catheterization to inspect their blood alcohol content, or inspect their bloodstream, for evidence of the ingestion of government-proscribed substances.

It really is a fairly routine thing now, for the police under the rubric of the war on drugs to begin conducting what amounts to government licensed sexual molestation of innocent people.

**WOODS:** Now, let me play devil's advocate here, Will. Not to the extent of defending anal cavity searches or anything like that, but, I'm just trying to imagine what the average person hearing the details of this case would say.

And I think the average person would say, "Well, I agree this is despicable, this is disgusting, and there may have been ulterior reasons behind it that were something other than protecting the public, and all that, but still we are talking about a relative handful of cases. And when somebody like Will Grigg focuses our attention so single-mindedly on these abuse cases, it causes the public to have a general contempt for the police, which is not good for law and order."

So how would you answer that sort of Archie Bunker response?



**GRIGG:** Well, I would plead, I suppose, no contest to the charge that I'm trying to cultivate contempt for the police, because I think that the behavior of the police, in most circumstances, is contemptible, and furthermore, contemptuous of the public they supposedly serve.

These are anecdotal examples, but they do accumulate to the point where, if you've got half a dozen or more instances of this sort spread across the broad geography of the country, you're not talking necessarily about something that would simply be the skimmings off the stagnant pond of corruption in a place like Deming, New Mexico. You have Deming. You have Texas. You have Utah. You have California.

And when you see this sort of thing proliferate across the countryside, of course, you should ask somebody who offers that criticism how many high-profile episodes of this type of abuse are we going to countenance before it becomes obvious that it is a policy?

Granted, when you have this sort of thing publicized, then you're told there might be specific applications of this that were wrong, that these officers are never held accountable in the sense of facing criminal charges for this type of aggressive abuse of another human being. They are never held accountable in that sense. They might suffer some kind of administrative sanction, which usually involves a paid vacation, or perhaps a letter of reprimand.

But the question I always ask is, under what circumstances is it right for any human being to do this to another human being, irrespective of the way the perpetrator is attired or whatever title he might claim? It's not a question of how you're dressed. It's not a question of your occupational title. It's a question of what you're doing to another person. And in what circumstance is it proper for anybody to pull over another human being by the side of the road and subject them to that type of misbehavior?

Too many people, as you probably understand, Tom, can become inured to the notion there is some special status enjoyed by people in government-issued costumes called uniforms that elevates them above the common run of the rest of the population. And I'm trying to help people confront that assumption here.

The promise made by Robert Peale, when he created the Metropolitan Police in London back in the early 1800s, was that the police would be just like the citizens. He said the police are the public, and the public are the police, and the reason why we're going to have a constabulary here is so that certain people by way of vocation will do what all citizens should do in terms of protecting the rights and property of the innocent.

But, unfortunately, baked into the cake of that proposition was this paramilitary order that is eventually now being revealed as the whole purpose of the exercise. All of the promises that were made in terms of keeping this system under check and making it subordinate to law—all of those promises have been dispelled, and what remains now is this paramilitary institution of privileged aggressors. And I am trying to help people understand that that simply is unsuitable for a civilized and free society.

**WOODS:** Will, tell people how they can follow your writing and your work.

**GRIGG:** My chief outlet is my blog, *Pro Libertate*, which is found at [freedominourtime.blogspot.com](http://freedominourtime.blogspot.com).

I do a weekly radio program at the [libertyroundtable.com](http://libertyroundtable.com) website for the Liberty News Radio network. And the radio program is called Freedom Zealot Radio. It comes on every Saturday evening at eight o'clock mountain time. And the website for that is [libertyroundtable.com](http://libertyroundtable.com). And there is a Listen Live Now button in the upper left-hand quadrant of that page. And, like yourself, Tom, a lot of what I write is republished at [LewRockwell.com](http://LewRockwell.com), which is, I think, an indispensable outlet for people who are interested in individual liberty.

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# Before the Welfare State?

## Guest: David T. Beito

### December 5

*David Beito is a professor of history at the University of Alabama and the author of From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890-1967.*

**WOODS:** As I mentioned in the introduction, you've written numerous books, but it was this work where I first became familiar with you, because back in the 1990s I read some of the papers that eventually turned into this book. And the book is *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services 1890 to 1967*.

What's so valuable about this book is not only the rich texture and detail that you're providing here, but you are filling in a very important gap: what did people do before there was a welfare state? I think the reigning assumption is they just keeled over and died. And you show there was a whole world out there, a whole parallel universe, where people arranged their affairs and provided for themselves, and for each other.

So, first of all, how did you come upon this topic? Because you came upon all kinds of interesting sources and records that I'm not sure most people were aware even existed.

**BEITO:** Well, I was thinking of looking at philanthropy, the history of philanthropy, and I was talking to Tom Palmer of the Institute for Humane Studies, and he said, "You ought to read this book about British fraternal societies, or British friendly societies."

It was done by a guy named David Green. I read this, and then there was some similar work that he did on the Australian friendly societies, to the American counterparts of fraternal societies, and they did all these things. They had health care, and provided this low-cost social welfare system through mutual aid.

And I thought, well, gee, I wonder if there is anything like this in the United States. I just looked at a few encyclopedia entries and saw an indication, yes, we did have these organizations in the United States, and I looked deeper and deeper into it and found an array of social welfare services covering everything from unemployment insurance to orphanages to homes for the elderly to hospitals, and I dove right into it.

It was really quite remarkable the extent to which historians have ignored this topic. So, it provided me an opportunity, which is great for historians, to be a trailblazer simply because there was a neglected topic.

**WOODS:** And these days when there are so many historians, and so many people getting Ph.D.s, and people are writing about tiny little slivers of history that are of interest only to specialists, to be able to blaze a trail on a topic that would be of interest to the general public, and certainly, obviously, of interest to libertarians, is a tremendous opportunity.

When we talk about fraternal organizations, what do we mean? What are examples of fraternal organizations? What were their primary functions?

**BEITO:** Well, these groups you see all around you today, but they are really much reduced, and they mostly now just serve as social clubs, and these groups, like the Elks and the Oddfellows, the Knights of Pythias, and a lot of the immigrant groups—virtually every immigrant group would have a fraternal society—Sons of Italy, various Jewish organizations, black organizations—in fact, the role these groups played among blacks, I think, has been shamefully ignored. If anything, these groups were biggest among blacks in the United States, bigger than among whites. Yet, it's part of that history that's not written about.

What would they do? They had a ritual. They were supported through membership dues. They were very decentralized to lodges. Sometimes they would have thousands of lodges added throughout the United States.

And they would have a social function, certainly. This was often in the community where the dances were, where sporting events were, sometimes where the bars were, would be the lodge.

But they also used this as a method to provide for mutual insurance, social welfare services, including health insurance, orphanages. It wasn't charity. And it wasn't governmental relief. It was something different. In fact, they rejected the label "charity." They said, "We are mutual aid; reciprocity." You might be giving aid one day, and you may be receiving it another. But it is certainly the benefit of membership.

**WOODS:** Now, today, when you talk to somebody in a fraternal organization, he'll talk about his fellow lodge brothers. Even if they haven't met yet, they feel like they have a special kind of connection. So, is it this kind of psychological aspect that knits everybody together? You would think that people would need to be in families, or in immediate face-to-face neighborhood situations, to be engaged in mutual aid. How big are these lodges?

**BEITO:** Well, this is why we sometimes hear these terms as historians—community, fraternity—and they really are different things. Community is something that, I think—you can define these things any way you want—but I would associate community as something geographical, where you do have these kinds of people in your neighborhood. Your friends, right? People you associate on a day-to-day basis.

And fraternity is a concept, I think, that transcends geography. And, so, you're a member of the Oddfellows,

right? You feel a sense of fraternity with fellow Oddfellows throughout the country. And when you move—let's say you move from Philadelphia to San Francisco—but what often happened in the nineteenth century is you would take a transfer card with you from your home lodge, you would join immediately with the Oddfellows in another city, and you would get the benefits of fraternal membership.

So these groups really kind of saw themselves as surrogate families in some sense, and you have this language of family, brotherhood and sisterhood, and fraternal societies included women's organizations. That's the term they used as well.

**WOODS:** Now tell us about how health care was part of this. Now, obviously, health care was much less sophisticated in those days than it is today, but nevertheless, one of the features of lodge membership included a kind of rudimentary health insurance. How did they work that out? And what did that consist of?

**BEITO:** Well, you've got to understand that part of this was because we did not have our current system, which heavily subsidizes insurance provided through employers. That really started in a big way in World War II, with tax exemptions for fringe benefits, or the state, which, of course, started to some extent earlier. These two sources.

So in an era where there wasn't really that kind of discrimination, a lot of the health insurance was purchased by the individual, and the main source of health insurance—say turn of the last century—was fraternal insurance. The way they would do it was the lodge would hire a doctor, and they would pay him a fee, based on the size of the membership. So, let's say you had a thousand members in the lodge, that doctor would get a thousand dollars a year.

The doctors would often compete for these lodge contracts. And they would have elections where the members of the lodge would choose the doctor they wanted to be their lodge doctor. And, they would be paid a certain flat fee. This would include medicines. It would include house calls.

And then you had a lot of lodges, even more commonly, before this, that would provide cash sick benefits. So, if you were sick, the lodge would pay you a certain stipend each week that you were sick, and they would send members over to your house to make sure you were sick, that you weren't cheating the organization. And that was an advantage they had dealing with what you would call moral hazard today. They would actually investigate these claims—more than just investigation, they would send the sick committee over to help you out, if you needed help.

And then later, a lot of these organizations started to get more elaborate. They started to build hospitals. And, some of the black organizations in the south had some white, quite well financed hospitals that provided health insurance, provided hospital care, at very low rates, through this kind of cooperative approach.

**WOODS:** Now you say here in the book that, in the 1920s, maybe one out of three adult men would have been a lodge member, which is an astonishing figure—and, when you add that to the number of

people who were members of churches, which presumably also, in extreme cases, would provide various charitable services, you see various voluntary ways in which people took care of themselves.

Now, when it comes to the fraternal societies, though, in addition to the medical care aspect, what other benefits did people get? Did you get, for example, help with burial, if there was an unexpected death, or was there something akin to unemployment insurance?

**BEITO:** A standard feature would be burial insurance, sometimes it would be quite a lot; it would be far more than the cost of the burial. But that was usually the core that would be providing that. Most organizations did that. And then they would piggyback on top of that other services including the sick benefits that I described to you, including the hospitals.

One of the groups that did that, which I thought particularly fascinating, was a black organization called the Knights and Daughters of Tabor, which had been formed in, like, the 1870s, by freed slaves. Apparently they'd been originally a slave resistance, an attempt to foment a slave revolt in the 1850s. These guys got together again in the 1870s and they formed this group.

Well, in Mississippi, they built a hospital. They built it brick by brick during the great depression, and it was the leading hospital for blacks for many years in the Mississippi delta. They would provide health care for something like eight dollars a year. You could get thirty days of hospital care at the Taborian hospital. And, if you were to figure out what that would be now, I'm not even sure what it would be, but it would be less than one hundred dollars a year.

Most of the members of this organization were sharecroppers, were people under the poverty line. No governmental money, and it was considered very good health care. Their interns were doctors from McGarry Medical School, so they were well-trained physicians.

**WOODS:** This seems like a good time to backtrack a bit and talk about the way in which the fraternal societies seem to have played a more substantial role in the history of American blacks than of whites, as you say.

**BEITO:** Native whites anyway.

**WOODS:** Okay, because of the immigrant groups.

**BEITO:** Immigrant groups were pretty extensive.

**WOODS:** Right.

**BEITO:** Among native whites, I would say that's definitely the case.

**WOODS:** So what kind of evidence do we have for this? And what kind of explanation do you suspect



would account for it?

**BEITO:** Well, we have statistical evidence that blacks were more likely to own life insurance, for example, than whites were. The amazing figure, when you consider how dirt poor as you know blacks were in the early twentieth century—these are people that primarily were living paycheck to paycheck, domestic servants very often, unskilled labor, seasonal work.

Yet, I was just amazed by looking at some studies that were done. City after city, during the Progressive Era—interestingly enough, you can thank the progressives for this because they did these block studies trying to show, “Gee, people don’t have insurance,” and they would divide it by ethnic group and by class, and consistently, 90 percent or more of blacks would own life insurance. Higher than any other group. A significant percentage of that—not all of it, but a significant percentage of that was through lodges.

There were all sorts of commentary from various anthropologists, sociologists that studied it—in fact, Gunnar Myrdal, a Swedish economist, complained. He said this is a problem among blacks. They’ve got too many social organizations. It takes all of their time. They can’t get anything done. They’re always going to meetings all the time. And people would use expressions like blacks were “lodge mad.” And of course, we have satire: Amos and Andy. The great team of Amos and Andy; again, this is done by whites. But, you know, it resonated, including among the very extensive black audience, because the major part of Amos and Andy was the main characters going to lodge meetings, the Mystic Knights of the Sea. This was common at the time.

**WOODS:** This is a major part, then, of the cultural and economic history of American blacks. Now here comes a fat softball right over the plate, David. Why do you think this aspect of that history is simply ignored, downplayed, not talked about?

**BEITO:** Well, I think you’ve got a certain template that we call the holy trinity. I think you know what I’m talking about: Race, class, and gender. And historians are sort of forced into that, even if they don’t want to do it, they’ve got to sort of bow down to it to some extent. And you know class—let’s find your organization where the whole point of it is one class trying to fight another class. Well, fraternal societies aren’t of interest. Every fraternal society—black, white, immigrant—that I know, just about every—maybe you could find some weird exceptions—said, “We want everybody to join, and we’re not going to discriminate on the basis of class.” They wanted people—in fact they bragged about it, that you might have a meeting where you had the factory owner as a lowly initiate and the laborer—you know, the janitor in the factory—is the guy who is now presiding over the meeting where he’s trying to join. So it blows that away. But these groups, you find them on every race. You find black organizations, white organizations, immigrant organizations, and they look very much the same. Gender? Well, I suppose some of these are male organizations. But again, if you look among blacks, for example, or a lot of the immigrants, I would argue that among blacks, most members of fraternal organizations, at least a lot of them—I think that actually that is true—are women. So, it confounds the effort that historians like to make to divide people, because these folks don’t act they way they’re supposed to act.

**WOODS:** Now that is an interesting—I was not expecting that. I like when I have a guest where I get an answer I'm not expecting. That's good, because I was thinking more in terms of these lodges, and the type of work that's being done in them, are examples of spontaneous and voluntary institutions, and they don't involve government, which is the normal story of how different groups have advanced or provided for themselves.

**BEITO:** Well, I think that that is actually—I would rate that highly, although I think historians are a bit more interested in charity, but then again it's often in a negative take of how inadequate it is. But we do have, I think, a lot more work done on sort of a lot of charity societies and charity organizations, but it tends to be very negative. But I think you're absolutely right about that. That that's a lot of it. They're not demanding revolution, right. They're just trying to solve problems. They're not organizing people to overthrow the system. And so a lot of the stories sort of look down on them like, well, gee, why aren't they interested in revolution? You know, that kind of thing.

**WOODS:** Right.

**BEITO:** So, that's bad, too, from that standpoint. But I think you're right; that's a key part of it. It's confounding because far more workers go on to lodges—if you're interested in working-class history—than unions, far more. So why don't we look at what the workers actually belong to? Well, I think I've given you some possible reasons why they're not interested. Why historians are not interested.

**WOODS:** Why does your study end in 1967 in particular?

**BEITO:** Oh, I don't know. That just seems a little awkward, but what happens, in 1967, is I have a chapter on this Taborian hospital, which, from I guess the standpoint of a libertarian, that outlook has a kind of tragic ending. Well, what happens is it's taken over, along with a competing fraternal hospital, by the OEO—you know, by the Great Society program—and that happens in 1967. Basically, it becomes a rather sad shadow of itself after that, and finally, it closes down. I did discuss a little bit after 1967, but that is sort of the main explanation, because I have a whole chapter on this rich history of health care in the Mississippi Delta, which is where most blacks lived in Mississippi, and what happens to this hospital. And there was another hospital, as well, in Mississippi, that I looked at. There were two—well, three actually—that I look at.

**WOODS:** Now, it seems to me that you could imagine a libertarian expecting that with the Great Society coming along, and the government taking over a lot of the functions that have been carried out by the fraternal societies, that would be one of the precipitating factors in their decline in this area, but if I remember your work correctly, you sort of suggested it's not quite that simple, that yes, that certainly seems to have played a role, but that the real story is muddier than that. Am I right?

**BEITO:** Yeah, it's always muddy, and as a historian I think you might appreciate that, that history is messy, and sometimes non-historians trying to get into it want a simple answer. And I think with a lot of things going on, I think in the case of the fraternal societies medical care, you need to look at the role

of groups like the American Medical Association, which engaged in a very ruthless campaign using the state, using the certification and licensing arm of the state, to try to reduce the number of doctors quite successfully in the early twentieth century, including the numbers of black doctors, the numbers of black medical schools, and so forth. One of the reasons why lodge practice survived is you had a big supply of doctors. Well, if you could impose what the AMA called “birth control” on the medical profession, which they were able to do, you make it much more difficult for these lodges to find doctors. In the end, they would wage all-out war on what they called the lodge evil. They would say don’t even consult with lodge physicians; don’t deal with them. You know they’re trying to suppress our fees to levels with a bootblack or a peanut vendor, and we must stop them at all costs. So there was an effort to smash that, I think, definitely that occurs.

In the case of Mississippi, the fraternal hospitals there, I think I have strong evidence that the state regulatory authorities were tremendously destructive, and they were constantly harassing these hospitals with rather petty regulations and things like, “You don’t have enough certified employees. Your ceilings are cane fiber; they can’t be cane fiber, they’ve got to be something else.” And constant harassment. What also does happen, certainly, is the rise of things like Medicare and Medicaid, which end—the third-party payment system. It takes away a lot of the potential patient base because if you’re getting medical care anyway through your employer, or you’re getting it through Medicaid, or you’re getting it through Medicare, and you’re barely getting by, you’re going to sacrifice those dues that you’re paying for fraternal societies. And, of course, I think there are social changes. One could argue that a lot of the fraternal model has to compete with new forms of entertainment that comes along—movies, and that kind of thing. So, I think that that’s a factor, but again, I look at this as an example of how resourceful people are. And I think that, given incentives, people would find new ways to adapt this model to sort of fit changing social norms.

**WOODS:** Well, David, I can’t tell you how excited I am about this particular work. It came out in around the year 2000—is that right?

**BEITO:** That’s right.

**WOODS:** All right. Well, it needs an audience eight gazillion times bigger than whatever the audience was because it’s the sort of question we’re all curious about: “What would people do? What did people do?” And you have given a very substantial chunk of the answer here, and I think this is probably one of the most interesting programs I’ve done. So I’m grateful to you for that. I’m going to encourage people to check out the book *From Mutual Aid to the Welfare State* by David Beito, and we’ll have to have you back on again to talk about another book.

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# Nullify the NSA!

## Guest: Mike Maharrey

### December 9

*Mike Maharrey is communications director for the Tenth Amendment Center.*

**WOODS:** Tell us about this initiative in Utah. Is it Offnow.org?

**MAHARREY:** That is correct. Offnow.org. And we've been referring to it as the OffNow Coalition because it's not just the Tenth Amendment Center, but it's a number of groups that span the political spectrum. We've got the Bill of Rights Defense Committee, and Downsize D.C., and several other organizations—antiwar.com—that are on board with this. This is a national coalition, and it's focused not just on Utah. This is nationwide. We're going to try to get this done in every state in the union, if we possibly can.

**WOODS:** Let's dive right in. I have deliberately not told listeners yet what exactly this is all about, what the strategy is, so I want you to describe for them what exactly are you aiming to do here with this initiative.

**MAHARREY:** Well, I think everybody is aware that the NSA [National Security Agency] has so grossly violated the Constitution, and so grossly violated our basic privacy rights. I don't think there's any question about that. The question then becomes: what are we going to do about it?

Most people want to focus on the D.C. solutions. You know, they're going to call their congressmen, and they're going to send a petition to Barack Obama, and wait for the nine federal employees over at the court to decide one way or the other, and we know from experience that this doesn't work. So we've come up with an idea.

Actually, let me back up a second. We didn't come up with this idea at all. James Madison actually came up with the idea in Federalist #46. And he said one way to protect the Constitution and stop federal overreach is simply to refuse to cooperate with officers of the union. So that's what the whole OffNow campaign is about. We want state governments and local governments to simply refuse to work with the NSA in any capacity whatsoever.

To that end, we've created a whole program with several steps. The first step that we're looking at is this Fourth Amendment Protection Act, which is a piece of legislation that would be at the state level. I'll quickly run through the four things that this would address.

Number one, it would inhibit the state from giving any material support to the NSA. So, for example, in the state of Utah, we've got this data center. It uses some 1.7 million gallons of water every day, or at least it will once it's fully operational. That water is supplied by Bluffdale, Utah, which is a subdivision of the state. The state has the authority and the power to simply say to Bluffdale, "You can't do business with them." That would cut off the water. No water; no cooling. No cooling; no spy computers. So, that's kind of the idea. We want to repeat this in every state. Every place the NSA tries to go to build these data centers, we want the states to refuse any cooperation and any material support.

Number two, data sharing. We know from the Snowden revelations that the federal government shares this information. NSA gathers it unconstitutionally, and shares it with state and local law enforcement. It is gathered without a warrant. Part of this act would prohibit the state from utilizing any unconstitutionally gathered information that was taken without a warrant in any court or any judicial hearing. So, therefore, it makes this NSA data useless at the state level.

The third part of this deals with universities. One hundred and sixty-six universities across the United States have partnerships with the NSA. They call them centers of academic excellence—nice Orwellian terminology there. And these universities provide assistance to the NSA through research, and also providing recruiting grounds for future NSA spies. Obviously, in a state school, the state government has a great deal of control over the purse strings and over what the policies of the state university are. We're going to harness that to forbid the state universities from working with the NSA.

And then finally, in areas where we have private corporations that are doing business with the NSA, we can do two things. One thing, we can just put public pressure on these corporations. But, importantly, from the state level, the state can refuse to do business with them, and forbid them from having any ability to bid for contracts, either with the state or local government. So it gives them some disincentive to do business with the NSA.

So, that's the legislation in a nutshell.

**WOODS:** Now who came up with this brilliant idea to shut off the water to the NSA compound? Who came up with that? That's great.

**MAHARREY:** Well, really, it was kind of—I don't know. It's "throw a whole bunch of ideas in a big pot," and that's what boiled out of it.

Michael Boldin, our executive director, started off by doing a lot of research, and he came across some articles that revealed that one of the reasons they built this big data center in Utah is that they had maxed out the power grid there in Maryland, where they're currently located. And there were all these articles

about how they were afraid that they weren't going to have the power, and they weren't going to be able to do all the spying that they wanted to do because they didn't have access to utilities.

So that's one of the reasons they moved, and Boldin and people that were thinking about this started saying, "You know what? Look at this. We've got city and state governments providing utilities. So why not cut it off?" That's kind of how it developed, and from there, we worked up the legislation and got some of our legal analysts involved in it, and kind of tightened up the legal language, and here we are.

**WOODS:** Well that just blows me away, because that is such a beautiful idea just for its simplicity. It's so wonderful. Now this initiative has gotten some pretty high-profile press so far. I mean, no sooner did I get done blogging at my personal site, TomWoods.com, about the article that appeared in *U.S. News and World Report* about this than I saw an update from Michael Boldin saying that *Time* magazine was covering it. What do you attribute this to? I mean, you guys are just getting started. You're really just kicking this thing off, and already you've got two major titans of the establishment reporting on it.

**MAHARREY:** Yeah, it's interesting. You know that I work in media—at least, I used to work in the media world—so I kind of understand how it operates. And it's very much a follow-the-leader type of thing. So, the key in getting any publicity for anything is getting that first media outlet to bite. And *U.S. News* was the first to bite.

Actually, I sent out a press release earlier this week, after the Utah newspaper, the *Salt Lake Tribune*, actually ran a very nice exposé revealing through record requests that they got the deal that the NSA worked out with the City of Bluffdale for the water. So, when this came out, we press-released that and got *U.S. News*. For whatever reason, it intrigued him, and he wrote the article.

So then, *Time*, obviously that's their competitor, you know, they looked at it and they go, "Uh-oh, we'd better do something." And it has kind of picked up from there. We've gotten a lot of radio requests. We've gotten a request from The Blaze to do a TV interview this evening. So, it's starting to resonate.

I think this issue resonates with people. I mean, you know, there's a lot of things we can debate about, and people get on one side of the aisle or the other, but pretty much nobody wants people peeking around in their personal business. So this resonates with people across the political spectrum, and I think this is one area where everybody can say, "The government is just way over bounds here. Let's do something about it."

**WOODS:** I think this is a great idea for so many reasons, but one of them is it takes the idea of state level resistance and applies it to an issue that is so popular—the idea of resisting the NSA—that it really takes the rug out from under those who would say, "Anybody who wants to use the states for anything probably supports slavery."

I mean, after all, Mike, isn't this—when you peel away all the stuff about wanting to stop the NSA, be honest with me—you just want to reinstitute slavery.



**MAHARREY:** Right. We're what—neo-confederates. [Laughter] And you know what's funny about that? As we were developing the campaign, and as we were working out, okay, how are we going to communicate these ideas to people, one of the things that we've really studied in depth is state resistance to the Fugitive Slave Act.

**WOODS:** I was just going to say that. That is a perfect parallel. All right. Run with this.

**MAHARREY:** Well, I mean, the Fugitive Slave Act resistance is the exact opposite of what you learned in high school. You know, the high school history is, "Oh, the Civil War is all for slavery, and the Confederates, the South, they were all for slavery, and they used nullification and state rights to support slavery." And this is absurd.

If you actually read the history, it was in fact the centralized government that was necessary to support the institution of slavery, not only during the Civil War era, but really going all the way back to the founding. It was interesting. I found that information about Charles Pinckney in South Carolina. He was a big advocate of strong national power, primarily because he knew it was necessary to sustain the institution of slavery.

So, in the 1800s, you started having these fugitive slave laws. And you had the slave catchers going up into the North and trying to round up their runaway slaves. And, of course, in the process, they also rounded up free blacks, because this is a lucrative market.

The northern states, defying the Supreme Court, defying Congress, defying all of the conventional wisdom out of Washington, D.C., passed a series of personal liberty laws that thwarted these efforts. And one of the primary strategies that they used was non-cooperation—exactly what Madison suggested in Federalist 46, exactly what we're doing with the NSA. They simply said, "You know what? If you're gonna try to round up slaves here in Michigan, you're not going to use our jails." In Massachusetts, they said, "You know what? If you are a sitting judge or a lawyer in this state, you will not be employed by a fugitive slave commission, or else you'll be disbarred."

And, ultimately, they kept ratcheting it up. I mean, by the late 1850s, you actually had the state of Vermont essentially saying, "Any black person that's within our borders, we consider them free, and if you try to round them up, we're going to charge you with kidnapping." That was the ultimate endgame. So, this idea that this was about slavery and that state sovereignty is all about keeping people oppressed is obviously absurd.

**WOODS:** It is so ridiculous. It's at such obvious odds with the historical record. I mean, for one thing, there were no anti-slavery laws the South would have needed to nullify. It had the federal government in its pocket, for heaven's sake. It had the Fugitive Slave Act. It had everything it wanted, so it was the North that had to use nullification in order to do this.

This is why this particular initiative is so great, because now it opens up the discussion of state level

resistance and nullification on grounds that are favorable to us, where we get the benefit of the doubt, because the cause that we're involved in is so non-partisan. It's trans-partisan, really, is what it is.

It's no longer a case of, well, you just don't like Barack Obama because he's black, or that's why you don't like Obamacare, or whatever. This is something that people across the spectrum dislike.

I hosted the Peter Schiff Show a few days ago and I made this exact analogy, that when passing these personal liberty laws and engaging in efforts to thwart the Fugitive Slave Act, the northern states were looking at ways they could deprive the federal government of the use of state resources.

**MAHARREY:** Exactly.

**WOODS:** So, how long has this been going on? I mean, when did you guys launch this program?

**MAHARREY:** Well, we started developing it over the summer. We had our quote/unquote "official launch" on November 12th, in a series of editorials that appeared in quite a number of publications, mostly online publications, and we sent out a press release. We kind of tried to coincide it about a week after the big NSA march on D.C. to kind of try to piggyback off their publicity a little bit. So, this has only been going on officially for a couple of weeks, really.

The interesting thing is we've already got three first commitments from state legislators who say they are going to run this bill. And Brett Hildebrand in Kansas, he's running a bill that doesn't address all four of those issues, but it does address the data sharing, and he has already got his bill drafted. So, essentially, we've got four states already on board, and we haven't even gotten into bill filing time yet.

**WOODS:** So, you guys at offnow.org have put up model legislation, and then individual states can modify it according to their own circumstances. Is that how it works?

**MAHARREY:** Exactly. And what we really encourage people to do, and all of your listeners, is take a few minutes. Go download that legislation, and email a copy of it to your state representative and your state senator. Send them the links to the OffNow website because it's really nicely set up. They did a great job designing this. Mostly Michael Boldin. He just did a fantastic job, and it's easy to get to all the talking points to understand exactly what we're doing. Send these to your state legislators, and encourage them to introduce it. Because that's the key. We need to get the information out there. That's the key right now, is to educate people. And as these legislators hear about it, some of them are going to say, "You know what? This is a pretty good idea."

**WOODS:** Now, when it comes to something like outright nullification of a federal law, there you have some people—I think they're wrong, and they're not always of bad will—who claim there is no such power of nullification, or it's at least dubious.

But here you're not really doing that. Here you're just saying an individual state is simply not going to

do X, it's not going to provide X or Y. And almost nobody would deny that the state is perfectly within its rights to, in fact, deny these particular services and these particular goods to anyone, including the federal government.

So you are on much more secure grounds in the sense that, even though I think the case for nullification is absolutely airtight, not everybody agrees with me. But what are they going to say to you constitutionally when it comes to evaluating your strategy here? It seems perfectly within what the states are permitted to do.

**MAHARREY:** You're absolutely right. Even the federal employees up at the Supreme Court agree. And there is actually a legal doctrine that is well established. It is called the Anti-Commandeering Doctrine, and it rests on four Supreme Court cases that date all the way back to 1842.

Interestingly, the very first case was the fugitive slave case, and it was Justice Story, who loved national power. But he actually did say that the federal government was in charge of fugitive slave rendition, and that states did not have to help out. So that was really kind of a first case where you saw this idea that the federal government can't commandeer the state's resources.

And then we have three more cases that are more modern: *New York v. the U.S.*, and then the Keystone cases, *Prince v. the U.S.*, and then the recent health care ruling. All of these establish very firmly that the federal government cannot commandeer or force state or local government to help them implement or enforce any type of federal act or action. They don't have to do it. It violates state sovereignty. Even the judges on the Supreme Court have agreed with this.

So we are on absolutely solid ground from a legal standpoint. And, of course, I agree with you that the case for nullification is airtight. Quite frankly, the important thing about nullification is the end result. We want to make that law void and inoperative within that given state, and we think that this strategy with the NSA can certainly put a big hurt on them.

**WOODS:** All right, now beyond this particular piece of legislation that you guys have drafted as a model, what other types of strategies are you looking at as a coalition in dealing with this issue?

**MAHARREY:** We're really looking at this as a multi-prong strategy that's actually a long-term type of strategy. We don't expect to wake up on June 1st, and all of a sudden, there's no more NSA. We realize that we're in this for a long fight, and there's a lot of things that we're going to have to do.

This legislation is step number one. We have some other things that we're developing, as well. We talked a little bit earlier about the corporations that do business with the NSA, and obviously the state can have some impact by refusing to allow them to bid for state or local contracts. But let's be honest. The federal government can throw a lot of money that doesn't exist at any corporation it wants to hem in with its plans. So one of the things that we want to do is to work at the grassroots level and bring market pressure on some of these corporations.

**WOODS:** I was just going to say this. That's great. That's a great idea.

**MAHARREY:** Absolutely. And, we've talked with some of our coalition partners. We've even talked about maybe being able to bring in some people in the labor movement that would be friendly to this idea. So there are some things we are working in that direction that aren't really legislative at all, but again are grassroots.

You know, I like to think of Rosa Parks. Thinking of what she did when she refused to give up her seat on the bus. I mean, really, when you think about it, that was pretty insignificant in the big scheme of things. You know, she went to jail, for goodness sake. It wasn't like she created this revolution on that day. But, what she did sparked the imagination of people. It sparked the Montgomery bus boycott. It brought Martin Luther King, Jr. to prominence. And really, her actions, I say, ultimately killed Jim Crow. And all she did was say, "No." So there's no telling what we can do just at the grassroots level by bringing pressure against these corporations.

And another thing that we want to do is to bring pressure into the universities. You might ask, "Well, what about a private school? You know, the state really can't pull many strings on a private university."

Well, we want to work through student government organizations and have student government organizations pass resolutions and put pressure on the administration to get out of these types of agreements with the NSA. So, harness the activism and the energy that you have with students on campus to get them to protest.

A lot of this, the legislative part, is really important. But a lot of this is public opinion, and a lot of this is getting people angry and involved and doing stuff, not calling your congressman and your senator, because they don't care if you call them or not. But, I guarantee you, when you call your state legislator, or when you start putting pressure on university administration, or when you start putting negative publicity on a corporation, those guys will pay attention because it starts to cut into their bottom line.

**WOODS:** Now let me back up a little bit, though.

I know that, as you've just described, the whole plan does not revolve simply around "let's cut off the water." For some reason, there's something I love about that. But I just want to ask you—not that I want to immediately assume this won't work—but, obviously the federal government is not going to say, "Well, we can't get the water, so I guess there's no way we can spy on people." What do you think they would try to do?

I mean, put yourself in their shoes for a minute. What step do you think they would try? They can't deal with every single one of the strategies that you guys are going to throw at them, because some of them—if you're going to organize boycotts against certain corporations that are in bed with them, there's nothing they can do about that. How do you think they would respond to this water shutoff?

**MAHARREY:** You know, I have absolutely no idea. I'll be honest with you—I have a real hard time with the naysayers. You know, the people—and I know you deal with these people all the time—”Well, there's no sense doing that because the federal government is just going to come in and do X. There's no reason to even try.”

I have no idea what they're going to do. That's the beauty of the multi-prong strategy. Okay, maybe they can find some way around the water issue. I mean, who knows? Maybe they will federalize water. I mean, they might try. But here's the interesting thing about that, and it gets back to this whole idea of public pressure. You know, you have a state like Utah, water is a very valuable and very scarce commodity, and I know for a fact that a number of environmental groups have been quite upset when they found out that 1.7 million gallons of water have been siphoned off to this data center to spy on them. So, as we educate people about this, a lot of people are going to be very angry, and water resources, especially out west, electric grid resources—those are important things. So, when you start talking about these things, it's going to mobilize the masses, and when you have people against you, it makes it much more difficult. There's much more pressure. There's much more resistance. Again, if they figure out some way to get around the water issue, you know, maybe we'll turn off their power in Texas. Maybe that'll work. Or, they can't do anything about the other three aspects of it. They can't make the state schools have agreements with them.

**WOODS:** Right.

**MAHARREY:** They can't make the state governments use their data for their court cases. So, there are some things that there's just absolutely no way the federal government can do anything about. And, you know, we've proven, I think, that we can do creative thinking. So, if they come up with some way around it, then, by golly, we'll put our creative heads together, and we'll come up with another way to thwart them because this battle is extremely, extremely important, and we're not just going to lie down.

**WOODS:** Well, I think even if they were to figure out some way around the water thing, it's still valuable because the story that people read reminds them, or educates them for the first time, that people in the states can do something. Right?

It may not be successful every time. You may have to try three or four times before something works, but for one thing, it alerts people to problems, and it alerts people to possible solutions, that there are solutions other than writing to your congressman.

**MAHARREY:** Exactly. And you know, I think the beauty of this strategy that the Tenth Amendment Center has applied not only with the NSA, but you know, the Second Amendment, to indefinite detention, to marijuana laws, all of these, by focusing on the state level, people actually get involved with what we're doing. They realize that a phone call to their state representative actually matters. Their state representative actually listens to them. They find out that if they send a bunch of emails to a committee chair, and all of a sudden a bill that was bottled up gets a hearing, they realize that what they're doing at the state and local level—they as people, as individuals, still have the power to make a difference at

that level.

I think it opens their eyes, and they are like, “Hey, this was pretty cool.” Once you are able to do it, it’s like a power trip. Let’s do it some more! I could call my congressman here in Kentucky, and, you know, I talk to an intern, and the intern would either say something condescending, or else he would try to patronize me, and then I would get a nice email: “Thanks for calling.” And that would be the end of it.

It doesn’t matter what I do in Washington, D.C. , but what I do in my state really, really matters. And I think you’re absolutely right. By doing this, we are teaching people that they actually do have power. The people have power to take back all of this overreach and this garbage that the federal government wants to do.

**WOODS:** Well, Mike Maharrey, you’re doing great work. You and Michael Boldin, the Tenth Amendment Center, all the people in this coalition. Offnow.org is the site you should check out. Of course, tenthamendmentcenter.com is also worth checking out. But on this issue specifically, there’s a special site, offnow.org, everybody should check out.

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# Bitcoin: Objections and Replies

## Guest: Erik Voorhees

### December 11

*Erik Voorhees is a longtime Bitcoin entrepreneur. Follow him on Twitter at <http://twitter.com/ErikVoorhees>.*

**WOODS:** Today I just want to play devil's advocate. I already told people that if you're interested in Bitcoin 101 you should listen to the interview you and I did on the Peter Schiff Show. You can get that on YouTube. But today I just want to throw objections at you in a devil's advocate style, and just see what you say. Because almost in proportion to the interest in Bitcoin, there's been a growth in skeptics and naysayers. A lot of the time it's the same arguments again and again, but some of them are sort of new, and so I want to run them by you and get your thoughts, okay?

**VOORHEES:** Yeah, they're certainly worth addressing at all times.

**WOODS:** Well, the first one is really specific. Can you describe for us what happened with Sheep Marketplace?

**VOORHEES:** Yeah. So, most people have heard of Silk Road, which was the underground illegal narcotics website that only used Bitcoin. That was shut down by the FBI back in late September? Early October? Almost immediately after it went down, a few copycat websites came up. One of them was called Sheep Marketplace. It may have been running before Silk Road—I'm not sure—but it was running for just a couple of months after Silk Road got shut down, and then, I guess, a week or two ago, there was an incident, and a whole bunch of Bitcoin was stolen. The question is, was it a hack? Did someone hack in and steal all those coins and run away? Or did the actual operators of Sheep Marketplace steal all the coins and make it look like a hack so they could run away with a bunch of money? So obviously people argue that both ways, but the point is that a bunch of money got stolen.

**WOODS:** And it's a big bunch. It's like a hundred million dollars, right?

**VOORHEES:** Yeah. Yeah, it's a lot.

**WOODS:** Okay, so what does this say, if anything, about Bitcoin in general?

**VOORHEES:** So, it's very important to realize that Bitcoin is similar to gold in many respects. Just as if you had left your 400-ounce gold bar with some merchant, and that merchant was untrustworthy and took the gold bar and ran away, there's no one you can complain to to get the gold bar back, right? I mean, with gold, as with Bitcoin, possession is sort of ten-tenths of the law, and if you have someone's gold, and they don't know who you are or where you went they can easily run away with it. So this is an unfortunate lesson that a lot of people in the Bitcoin world have learned. They're not used to having total control over their money, and total control requires total responsibility. If you control your money you have to be responsible for it. So if you give it to someone, you need to trust them. People running an underground drug marketplace may not be the most trustworthy types of people in the world. So some people seem to think that this should have been expected, but obviously theft is always theft, and always wrong, so it's a very tragic incident in any case.

**WOODS:** Well I want to shift gears to a question that's been on my mind. I think I can anticipate an answer, but I think it'd be interesting to hear your answer. When I hear Bitcoin people talk, sometimes they talk about it in language that might seem to the average person to sound sort of over the top about what they expect Bitcoin to do. "Bitcoin is going to destroy the state, it's going to topple central banks, it has all this great potential."

And maybe it does, but here's my question. For it to do that, you would have to get to a point where a huge, huge number, much, much larger than right now, would be using it. Can we plausibly expect that, when it is, after all, a system that is very difficult to explain to the average person, and, in fact, the average person using it is going to realize that it's actually not that hard to lose Bitcoins? Like if you just install some app on your smartphone, and you make a Bitcoin transaction, you've got a Bitcoin on there, and then a few months go by, you haven't done anything with that Bitcoin, it's time to upgrade your phone, so you toss it in the garbage—and there goes your money! Your Bitcoins are gone forever! So is this something you could plausibly imagine the masses of the public actually jumping into?

**VOORHEES:** Certainly Bitcoin isn't ready for everyone and their grandmother to be using it. It is still very small and it is still very much an experiment, and it's still a little rough around the edges. Many things that in future years will be the obvious Bitcoin tools that we all needed simply haven't been built yet. So until that happens, Bitcoin's usage will be limited to people who care enough about it to get over that obstacle. The same thing was true of the Internet in the early days, before web browsers, before AOL, before Netscape. The Internet existed, but was very difficult to use, people didn't understand it, and it was around for a number of years, you know, in that state with people slowly getting evolved and building up the tools that later would allow it to be used on a widespread level. And now of course we all take it for granted, and everyone uses the Internet all the time. So that same thing, that same process has to happen with Bitcoin. A lot of the different companies are building those things, but they're not all ready yet.

**WOODS:** This is interesting to me. Can you maybe think out loud here? What kind of things would you like to see developed that might improve, I don't know, the functionality or the user-friendliness of Bitcoin? And by the way, that example of the smartphone, that wasn't just pulled out of the air—that

was me, because I sold somebody a book in February, the first time I ever made a Bitcoin transaction, and then I still hadn't quite figured out how to use it. And then when I upgraded my phone, because I hated that old phone, I got rid of the old one and I later thought, "Oh, no!" And then of course it shoots up to 1200 dollars. It was 30 in February 2013 [laughter]! What an idiot!

**VOORHEES:** Yep [laughter]. Well, you know firstly people will tend to learn the lesson after they lose money, but ideally you don't want people to have to deal with that. Some of it is just that it takes time for people to learn a new system, and how to use it responsibly. Just like when you're learning to drive a car, it takes some time before you're good with the car. For us who have been involved with Bitcoin for a while, we know how to use it responsibly and we know it can be done very safely and easily once you know it. But there's a learning curve, absolutely. There are other mobile wallets for your phone, where if you lost your phone or you destroyed it, you could have had a backup on your computer, for example, but you didn't know that. You could have had a printout of the private key somewhere. So there are ways to avoid most or all of the pitfalls of Bitcoin, but it takes some specialized knowledge, and I think probably the best new businesses in Bitcoin will be people who figure out how to remove the need for that specialized knowledge from the normal user base. Just making it foolproof—that's where a lot of the value will come from.

**WOODS:** Now what do you say to people who say that Bitcoin is so volatile right now that it can't serve as a really good medium of exchange, and that in fact it's really not being used as a medium of exchange as a result of that, it's being used—people are holding it as a speculative investment, and they're not really using it for the purposes that Bitcoin partisans are wanting it to be used.

**VOORHEES:** First of all, it's not an either/or situation. It's not that either we're using it as a currency, or that we're all speculating and holding it because we think the value will go up. It's obviously a mix of both, and you know, myself, I hold a bunch of Bitcoins because I think that the value will be going up, but I also use it as a money; I buy things, I buy airline tickets, I buy Christmas gifts, I pay contractors and workers in Bitcoins, so I'm using it as a money and I'm speculating on its value. They're not at odds with each other, but something like Bitcoin is going to either change the world, and become a kind of protocol that's used by people all over the place, or it's going to fall out of favor for some reason, and kind of dissolve. Maybe there's some kind of a terrible bug that will cause that to happen, or maybe a better cryptocurrency will come along, or maybe people just forget about it, and then it will go to zero. So what you have is a situation where the future expected price of a Bitcoin is either going to be zero, or it's going to be something really high. So how does a marketplace properly value that? How do you value something that'll either be zero or worth a lot? So every little indication of which outcome it might be is what leads to these big swings. When big companies announce that they've added Bitcoin integration it looks like "Oh, this is actually catching on," so the price is going to move up. And when governments get angry and say they're going to try to ban this, then maybe, "Uh oh, we can't use this anymore, it's going to go to zero." So this is a market trying to price a revolutionary new technology and I don't expect it to stabilize anytime soon, but we shouldn't be afraid of the volatility. We should understand that that's just a natural market phenomenon. And indeed, Bitcoin now is far more stable now than it was three years ago. So, as it grows, as the market cap gets bigger, as more people are using

it, it will stabilize over time. But that's something that's earned, not bestowed upon it at the beginning.

**WOODS:** Well, that seems like a good point for me to ask this—I was going to hold it off until the end—but Roger Ver, whom you and I both know, who recently had a sort of bombshell announcement because he had predicted a couple of years ago that Bitcoin would outperform gold, silver, the stock market and the U.S. dollar by more than a hundred times, and instead of it taking two years, it took two years and two months for this to happen, so he wound up having to pay out as a donation the equivalent of a million U.S. dollars. So it's no problem that he paid for the lunch when I met him that time—I guess he can handle it. Are you willing to go on the record with any type of prediction about where Bitcoin will end up? I mean, where's the fun in life if you don't take a risk like this, right?

**VOORHEES:** Well yeah, I mean people are into Bitcoin for lots of different reasons, and for those of us who really believe that this has incredible potential, we've staked not only our money, but our lives, our careers, our reputations, and sometimes even our friendships and our relationships on this system, and so it's very much something that people are risking all sorts of things on. But it's like the Wild West in that people saw opportunity and risked everything to go seize it, and there'll be lots of heartbreaks and disasters along the way, but ultimately that's the way that humankind progresses. No one actually took the other side of Roger's bet, so he didn't technically need to pay, but he wanted to make a big donation to the Foundation for Economic Education and he saw this was a good way to do it, so yeah, it was quite an impressive donation, for sure.

**WOODS:** Now, another thing that's come up quite a bit is the question of secrecy and Bitcoin, because a lot of Bitcoin partisans point to how anonymous it all is. But I think it's only as anonymous as you make it, so I guess before we get into the anonymity aspect of Bitcoin, can you first tell me what in your judgment would be the one or two most appealing and attractive features, things about Bitcoin, reasons you're into this so much? Is secrecy anywhere on that list? Is anonymity anywhere on that list? Or is it something else?

**VOORHEES:** Secrecy is not that big of a deal to me, but the two things that are most important to me is that it is a money that is not treated or managed by the state. It is a stateless money. This is also why I like gold, but, of course, unlike gold, Bitcoin also works amazingly well in day-to-day transactions and normal modern commerce, both online and in person. So it's really the first non-state money that I think has a chance to thrive in the marketplace. That's the first thing I like. That's just an ideological argument. From a functional argument, once you understand how to use it, it's just damn easy. I mean, I can send someone in another country \$100,000 in one second and there's no fee, there's no delay, it doesn't matter if it's a Sunday or Christmas morning or whatever. I can send money now to people as easily as I can send them an e-mail. And I mean, why not, right? It's all digital. All you're using now, it's already a digital currency. Why does it take three to seven business days for you to send your digital dollar currency from you and your digital bank account to someone else's digital bank account? It's not like they're shipping stacks of dollar bills across the earth, or pounds of gold. It's all digital, so why does it take so long? That's the other big virtue of Bitcoin, in my opinion.

**WOODS:** Alright, now suppose you're just the average Joe, getting into this. I'm sort of the average Joe when it comes to this. I've got a "donate Bitcoin" widget on my TomWoodsRadio.com website. I accept Bitcoin for my subscription website, LibertyClassroom.com, and I'm pretty happy with it. And you're right: I don't pay the fees that I pay to Paypal, for instance, when I receive payments. So, this is all great and everything, but now I got these Bitcoins, and it's great if they increase in value, that's good in and of itself, but what am I supposed to buy with them? And I know we could say, "Well, look, it's still beginning and there are new merchants coming online all the time," but the kind of running joke that critics of Bitcoin keep making is that unless you're going to buy illegal drugs, or computer programming services, you're going to want to cash it out, and start using dollars again. So what's the point of the whole thing?

**VOORHEES:** Yeah, so this is where a little bit of misconception comes in. First of all, you can buy anything on the internet with Bitcoin already, and interestingly enough the merchant doesn't even have to accept Bitcoin. There are ways now to buy things with Bitcoin through proxies and other companies that'll take your Bitcoin and buy the things for you and send it to you, so right now I can buy anything I want on Amazon with only Bitcoin. So, when people say, "What can I buy with it?" The answer now is: anything.

**WOODS:** All right, time out. I had no idea about this. So is there any way you can give the layman's quick overview about what steps you would want to take if you wanted to start doing that?

**VOORHEES:** The name of the service that I used recently is Snapcard. You essentially have an account with them, and they know your physical address, so they can send you things, and then it's just a browser plugin. So you can go to any website, say you're on Amazon, and there's a Tom Woods book. Say you want to buy *Nullification* by Tom Woods. You open the page on Amazon with the item, you can click on the Snapcard link in your browser, because you've added it, and Snapcard will see that there's a product with a price, and then you just click on that book, and it says, "okay, this book costs \$20 right now, that equals .00264 Bitcoins, and then it gives you a little Bitcoin address to send to, then you just transfer Bitcoins to that address, and the rest is done. You don't have to enter your name or anything. It's amazingly easy. They take the Bitcoin. They already have the address. They just order the product and send it to you. And you can do that with any e-commerce website on the internet right now.

**WOODS:** Alright, so we've been talking for, I don't know, maybe 17 minutes, up until now, and covered what I think are the types of objections that are the most common these days; you also hear people saying that this is a bubble, but I think that implicitly you have answered that. But is there any recent criticism of Bitcoin—not one that you've gone over a million times—but are there any new ones that you feel like ought to be addressed, or the other side should be heard?

**VOORHEES:** Well, let's actually discuss that bubble idea for a little bit.

**WOODS:** Okay, sure.



**VOORHEES:** So people see the price of Bitcoin, and the price history, and when you see the price of something that has just gone straight vertical, anyone that knows about financial markets knows that that's unlikely to continue, and that that's an anomaly, and rare. And so it's understandable to conclude that this must be a bubble, and that this is scary. I'm not going to buy it, you know, it's going to end in disaster. But, you know, Bitcoin has gone through multiple bubbles, right now, and I expect that it is going to go through a number of them in the future. Just due to how people, you know, supply and demand things, people start getting really speculative and interested in something. Its price is going to go very high.

Now the important thing to remember with Bitcoin is that even if it's in a bubble, whether it's in a bubble at \$1,000 or if it goes up to \$20,000, the bubble will pop at some point and it will find a new equilibrium. That each time it goes through these bubbles, it finds an equilibrium that's higher than the bubble before it, and it's never crashed down to the price it was before that. So the bubbles really need to be taken in context. I mean this last one, where it had risen up to \$1,200 a Bitcoin, over the last few days, there was a big crash, and it fell down all the way to the \$600s, so clearly there was a popping of a bubble there. And it's already back up to \$1,000, and who knows where it'll be in the future. But the point is that if you're a true investor in this, over the long term, you shouldn't worry about these short-term fluctuations and how the market is trying to price it. The short-term movements of Bitcoin are not really what's important, and it's probably a bad idea to try to gauge-rate it, unless you have an appetite for huge amounts of risk. But if the system gets adopted, the price will continue because it's a scarce resource.

**WOODS:** Wasn't that recent drop down into the \$600's occasioned by some news out of China about some Chinese thing not wanting to take Bitcoin? What was that all about?

**VOORHEES:** Yeah, so, first of all, it's not always wise to ascribe causes to market movements. Many, many things go into every price. Certainly, the announcement of China was the impetus for this last recent selloff. Basically, it was either the Central Bank of China or some other fairly high-up government group in China said that they didn't want Bitcoin to be used by financial companies in China. They didn't want banks opening up Bitcoin markets. They didn't want financial companies to be speculating on Bitcoin. So they basically barred the financial industry in China from getting involved in Bitcoin. So some people interpreted that as, "Uh oh, they're starting to clamp down, they don't want Bitcoin to be used, and so this is bad." And that was, perhaps, why they sold it off. In reality, at the same time to clarify, Bitcoin is absolutely legal to be used by normal Chinese people. They just need to understand that there's risk in it, and they can use it if they wish. So other people saw it as a positive, but the negative sense in it won out. Perhaps several days later people looked at the news and realized that it wasn't as bad as it sounded. Maybe that's why the price is already back up to \$1,000.

**WOODS:** You know what's interesting is that I can recall a time, as I'm sure you can, not that long ago, when Bitcoin was being talked about really only by a small community of libertarians and contrarians of sorts, and it seemed like something off the wall. But now it's in the financial papers, everybody's talking about it, everybody's expected to have an opinion about it. Is this happening sooner than you expected or is this right on time, or what do you make of all this sudden growth in interest in it?



**VOORHEES:** Well, those of us who were involved in it two years ago, when it was still tiny and very niche, we talked about it and how this would happen, that Bitcoin is going to keep going and becoming more and more integrated into the world's financial system and that, you know, more and more important players will start to take notice and get involved in it. And to a large extent, we were laughed at and told, "Oh, you guys are just dreaming, you guys are just a bunch of idealistic libertarians and you have no idea about money. This stupid deflationary currency can never work." You know, every reason under the sun why we were idiots. But of course, it is working, it is working in the marketplace, and the marketplace is adopting this system increasingly. So, yeah, it's getting integrated all over the place and it's not just a U.S. phenomenon, It's happening all over the world. I think that the central bank of Kazakhstan just released some information about their opinion on Bitcoin, so yeah, it's extremely exciting, it's happening a little faster than I thought, but, Internet technology tends to catch on pretty quickly. And if there's a financial incentive for it, then maybe even faster.

**WOODS:** I'm sorry to say I didn't click on it to get the information, I'm just so swamped with work these days. But I'm pretty sure I saw a headline that Bank of America came out with a report on Bitcoin in which they basically said, "Well, you know what, there may be something here." Am I remembering this right?

**VOORHEES:** Yeah, so I think it was a guy named David Wu, something Wu, he's a respected kind of Wall Street guy that works at Bank of America-Merrill Lynch. And I'm not sure if he works for the normal Bank of America corporate offices or if he's in the investment wing under the Bank of America corporate structure. But in any case it was under Bank of America letterhead, and it was released as this analyst's opinion on Bitcoin, on whether he thinks that it's valuable, where it could go from here. So these types of analysts put out this kind of stuff for lots of things, for stocks, and various investment opportunities. So it's important because it indicates that the normal financial world is really starting to take notice, and they think it's worth their time to pay attention to this, and, you know, I think they're absolutely right to be paying attention finally.

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# Foreign Policy Briefing

## Guest: Daniel McAdams

### December 13

*Daniel McAdams is executive director of the Ron Paul Institute for Peace and Prosperity, and served for many years as foreign affairs, civil liberties, and defense policy adviser to Congressman Ron Paul.*

**WOODS:** This item is just too juicy not to mention, even though by the time people are hearing this, the item's over a week old. I don't think this story will ever get old, at least for me. And that is that John McCain receives an award from the new government in Libya. And this new government—very, very close to the time it awards McCain this honor—institutes Sharia law.

Isn't the whole point of McCain's policy supposedly to try to keep the dangerous, extreme Muslims out of power? And yet, for some reason, he keeps on putting them in power.

**McADAMS:** It is funny, and you know, as noninterventionists, we don't really care what form of government they choose over there, but, the thing is, by their own standards, we have to intervene everywhere because we're going to turn the rest of the world just like us.

And, you know, everywhere people follow McCain's suggestions, disaster strikes. It wasn't that long ago, if you remember, that McCain took a trip to Syria, and his purpose was to talk with these wonderful, moderate rebels that we can safely support, and he went there and spent the evening chatting with them, and had pictures taken. But it turns out that these guys were a bunch of kidnapping thugs who were tied to Islamist militias.

So here he does it again. He goes to Libya and tries to tout the wonderful success that we've had over there, and it turns out the place is an absolute disaster. Shortly after that, as you know, there was this American—who knows what he was doing in Benghazi—but he was killed, so there is no success with these neocons.

**WOODS:** Don't you have the feeling that, if Obama had gone over there and touted the success, right around the time that Sharia law was established, that we would never be hearing the end of this? Right?

**McADAMS:** Yeah, sure. Absolutely. Absolutely.

And doesn't it make you wonder, Tom? I wonder—and I hate to be kind to Obama in so many ways—but I wonder if, unlike his predecessor, he may have learned a lesson from Libya. You know, he listened to the French going on and on about how you've got to do this. He listened to the neocons. And the place is a dump. It's a disaster. So, I'd like to think that maybe he was able to learn in office, and that's why he's been able to, so far, pump the neocons on Syria and Iran. Now I don't know, but it would be nice if it were true.

**WOODS:** Well, on this Iran question—I can't find it now, unfortunately, right when I'm talking to you. I want to find it, and I think it's been taken down. But I'm not crazy: I know within the past twenty-four hours it was linked on the Drudge Report. He had a series of headlines related to Iran, and he had headlines saying that Americans polled want more sanctions. I don't know if you saw that, but if that's true, if that headline is not misleading, what do you conclude from that about—I don't know—the American public, or the information that they're getting? How would you react to something like that?

**McADAMS:** Yeah, I have not seen that. I would like to see the poll, and I would like to see the formulation of the question. You know, way back in a previous life, I worked briefly for the Gallup organization, and I know how polls can be skewed to get certain kinds of results. Not to say that particular organization is untrustworthy, but there are certainly ways of wording a poll.

But even if it is completely on the up and up and that's the result, I think the problem is you've had propagandizing for years that sanctions are a peaceful way to get a country to do what you want. "Oh, we're not for war." And we know, through several other polls, that Americans are not in favor of war with Iran by a large margin. Unfortunately, they're led to believe sanctions are a nice alternative to war, and I don't think they've really stopped to think enough about whom sanctions really hurt. And, also, how ineffective they've been historically.

**WOODS:** Now, that raises the more general question of Iran and the peace agreement, because the last time you were on the program, and they were on the verge of reaching an agreement, it didn't come about until about five or six days after you and I spoke.

So now that it's out there, it's slightly old news, but I'm sure there are some people who listen to this program who didn't get all the details, or who don't know exactly what's what. Maybe you can spell out for us what exactly was decided, what the neoconservative response has been, and whether there is any merit to the neoconservative complaint about it.

**McADAMS:** Well, in a nutshell, what happened is basically a six-month period where we are sort of testing the waters to see if we can find some common ground. What was agreed upon was really some confidence-building measures.

The Iranians gave up a lot, and, actually, some people on our side have written some articles saying they gave up too much, including Eric Margolis, whom I think you've spoken with. Temporarily, as a show of good faith, enrichment above the five percent is suspended, work on one of these heavy water

nuclear reactors that were controversial, and a few other things. The U.S. has agreed to give them back some of the money that the U.S. seized in the first place, and let them do a little bit of business internationally.

So, it's a good start. It's certainly not the end-all, and nobody thinks it is. But it's a good start to see. And also, it makes the neocons crazy because their argument has all along been, "You can't talk to these people." Congressman Paul did a great column a few weeks ago—the title was "You Can't Talk to Iran?"—right after the agreement was reached, and it really pulls the rug out of their argument, you know, that these guys are insane and irrational and you can't even talk to them. So, we'll see.

The neocons are not putting this one up in the lost category quite yet, and their big, fertile territory is really the U.S. Congress. Jennifer Rubin, our favorite neocon writer—or one of our favorites—had a piece a couple of days ago in the *Washington Post*: "Congress in Revolt on Iran Deal." And they are, on both sides of the aisle, in open revolt against the President, and they do have some pretty strong backing behind them, you know, both the Saudi lobby, which is chock full of money, as you can imagine, and the Israeli lobby, which is enormously influential on Capitol Hill. I know because I spent a lot of time working there. They have both decided to pull out all stops, and they view Congress as their last chance to thwart this deal. So, they are not conceding defeat yet.

But, just in case, Norman Podhoretz, who's the godfather of the neocons, I guess—he had a piece yesterday, I believe it was, in the *Wall Street Journal* saying we really need to bomb Iran anyway, because regardless of this deal, they just need to be bombed now with conventional weapons.

And you know what's funny about that, Tom, is that a lot of people say that the neocons are so close to Israel, and they believe they are. But what struck me in Podhoretz's column is that, in the end, he said, "Well, guess what? Obama's probably not going to do it. Hey, Israel! Why don't you guys do it? You should go ahead and try it."

So can you think of a worse enemy, Tom? Imagine that you're at a pub, you know, and you know that's the biggest, toughest guy in the corner, and you have a friend egging you on to go start a fight with him. You know you're going to get a black eye. And so what kind of a friend would do that to a friend who's had maybe a couple too many or something? I don't know. I think people like these neocons are really Israel's worst enemy.

**WOODS:** I think I emailed you about this Ben Stein column I thought was funny. I guess it's funny in a macabre sense.

First of all, it was just terrible writing. Terrible sledgehammer prose. Awful. No subtlety at all. Absolutely awful. I can forgive lousy writing, though, because most people are lousy writers, but Ben Stein was going on and on about Iran, and he just said, as if it were an obvious fact, that Iran was not a signer of the nonproliferation treaty.

But the whole issue has revolved around the fact that Iran has certain rights as a signatory to that treaty! How could you not know that?

**McADAMS:** How could you get the most basic fact of your argument wrong? I read the column, and it was really hysterical, you know. He needed to take a deep breath.

But you're right. The center point of his column was a fallacy, so how can anything else be believed? That's the point, that Iran did sign and continues to uphold. It's never been found in violation of the treaty. It's never been found to have diverted enriched uranium for non-peaceful purposes. You know, the neocon argument is, "Oh, they could. They could someday." So it's always a preventative. We have to attack them because they could do something wrong someday.

It's back to the column that we talked about that Dr. Paul wrote. Israel as a non-signer seeks to dictate the terms to all the countries that did sign, and it's not really fair ball, is it?

**WOODS:** Now, is it possible to get a sense of Israeli public opinion on this matter? Because, if memory serves, in a lot of cases in the past, it turns out that the biggest loudmouths in the U.S. who claim to be pro-Israel—which, as you say, it's not so obvious that their policy would have pro-Israeli consequences, to put it mildly—are much, much more pro-war than the people who actually live in Israel. Now is that still the case? Where is Israeli public opinion on what needs to be done on Iran? Is that any different?

**McADAMS:** I have not seen a recent poll on that, but if memory serves, it is not in favor, in general, of an attack on Iran.

And you know what's interesting: I would assume Israelis get as much news of the outside world as the rest of us, but what's not very well reported is that outside of Israel, the largest Jewish population in the Middle East is in Iran. There are literally thousands who live there, and they have a thriving Jewish community there. They have full religious rights. Nobody wants to talk about it, but perhaps they do look over there and see that the propaganda of the warmongers doesn't seem to jibe with reality.

**WOODS:** All right, let's switch gears a little bit and talk about China and the U.S.

Recently China asserted its authority over some islands, and the U.S. sent some ships over there. Something like that. I'm sorry I'm so vague on the details, but all my time is spent recording home school videos for Ron Paul [TW note: see [RonPaulHomeschool.com](http://RonPaulHomeschool.com)], so barring a nuclear holocaust, I generally don't know what's going on in the world these days. So that's why I have you come on here, to tell me what's happening.

**McADAMS:** Well, you're doing the Lord's work with that, that's for sure.

**WOODS:** Thank you.

**McADAMS:** Well, you know China has asserted a security zone over this group of islands that have been in dispute between China and Japan for quite a number of years. And, as such, they are basically a bunch of rocks, not worth anything, but there are mineral rights and these sorts of things, so somewhat significant. There have been territorial disputes between China and Japan. There's a lot of animosity between the two countries. But what the U.S. did is, seeing that China has declared that, they flew several B-52 bombers through this security zone without letting the Chinese know, and it's an absolutely provocative move, just daring the Chinese to stand behind their designation of this as a security zone.

It's absurd for the U.S. to get in the middle of this dispute between the two countries and risk a nuclear war over a couple of rocks in the South China Sea or whatever. And we hear, just this week, Japan and South Korea are going to be holding military joint exercises in the regions in the area as well.

It's so unnecessarily provocative. It really is, as Dr. Paul says, an example of the moral hazard of the U.S. security guarantee. You know the only reason Japan and South Korea feel they can try to provoke and try to kind of poke at China is that they have the U.S. military behind them. So, if we didn't have this empire, if we didn't have these bases all over, and if we didn't make guarantees to countries like South Korea and Japan, they'd have to be a lot more careful in the way they behave, particularly in their own regions.

**WOODS:** I want to say something else about China, though. I want to get your thoughts on, in general, the long-term relationship between the U.S. and China.

I recall vividly that in the 1990s, after communism more or less collapsed, it really was true that the neocons needed to find some new enemy, and until 9/11 they really hadn't succeeded in making Islam the new enemy all that plausibly. Not enough people cared about an embassy being bombed here and there, or the *U.S.S. Cole*. So they focused a lot on China. "China is the next enemy, and you are a naive idiot if you don't see that. Eventually, this is going to turn into a showdown between the U.S. and China."

What do you think? And are you a naive idiot to think that coexistence between the U.S. and China might be possible?

**McADAMS:** It's funny that you mention that. I remember back in the late '90s and the early 2000s, a lot of the then-big neocon writers like Bill Gertz and others were coming out with these endless stories about the rise of China, and how we need to be terrified of China. So you are absolutely right. They couldn't stand not having a bogeyman.

But what's interesting is that the U.S. relationship with China is stable because we need each other. We need each other economically. We do business together. As Dr. Paul always says, if you do business with a country, if you do business with an individual, you are much less likely to want to kill that person, or invade that country.



So this is the beauty of a market relationship, and it also has proven what we free marketers have said all along, which is that exposure to market activity will make a society less statist over time. Look at China. In many ways it is much more capitalistic than the United States is. It's much more pro-market than we are. Much less regulation. You know you have this sclerotic, old communist party that seems to control things, but it really is the people in business who control the country. So it's a success for our philosophy, I think.

**WOODS:** I think from the neocon point of view, though, the mere fact that China is a growing and very substantial power, and obviously intends to be more and more influential in Asia—the very fact that it increases its military budget—is viewed by the neocons as per se “aggressive.”

So, yeah, they may have some pro-market developments, but it seems like anybody who is a regional power or has the potential to become a regional power is just in and of itself a threat to the hegemonic power, the U.S.

**McADAMS:** It is viewed that way, and it does make you wonder why we do have so many ships and bases and things over there. What purpose does it serve? China certainly, as you say—this is not an endorsement of China—but China does have legitimate security concerns, and a lot of those are brought upon them by the U.S. security policy in the region. This pivot toward Asia, the different U.S. military commands that focus on the region. So probably there would be a lot less militarism on the Chinese part, if the U.S. would simply pull out and pull back.

**WOODS:** What are you guys keeping an eye on these days over at the Ron Paul Institute? What stories are you following most closely?

**McADAMS:** Well, I'm really fascinated with what's happening in Ukraine, because there are so many elements, so many things to be disgusted about. And once again, U.S. policies, for all of the optimism that we have about the President's policies toward Syria and Iran, are making absolute hash of Ukraine.

As you know, a couple of weeks ago, the Ukrainian government decided at the last minute it was not going to go ahead and sign an association agreement with the E.U. It wanted to continue talks with Russia, to see which would be a better trade deal. The Russians were in favor of Ukraine being sort of in between the two, but the E.U. was being sort of a jealous god, as it tends to do, and wanted all or nothing.

There continues to be an enormous protest in the streets, particularly in Kiev and the western part of Ukraine, which is much more pro-Poland. There is essentially a huge Polish population there, and the western part wants to be part of the E.U. Well, into all of this, as usual—if you remember back in '04, the U.S. basically financed the Orange Revolution, which brought in these wonderful pro-market people, who ended up absolutely destroying the economy. The U.S. is involved again. They've been spending millions of dollars on the opposition in Ukraine. They've been propping up these parties, and now they're all in the streets, and American and European bureaucrats and politicians are going

to Kiev, joining protesters who are openly calling for the overthrow of the government of Ukraine.

Can you imagine what would happen in the U.S. if, say, 50,000 people were marching in front of the White House calling for the overthrow of the American government, and there, leading the way, was a Vladimir Putin? You know, or a Rouhani? Or someone like that. A foreign political leader. It's just unheard of, yet we believe we have the right to do this to other countries. It's just so absurd.

The U.S. Assistant Secretary of State, Victoria Nuland, who was one of the worst humanitarian interventionist neocons—she's literally down in the so-called Freedom Square right now, handing out cookies to these protesters and these people who are seeking to overthrow the government. So it really is—it's just an awful thing, and you have all these loser E.U. politicians whose parties have been defeated in parliaments—Saakashvili from Georgia. He's not E.U., but many others—Kaczynski from Poland—are down there leading the protest.

So it really is unseemly what's happening in Ukraine. And some people will argue, "Well, these people are fighting for their freedom. They want to be Western-oriented." But the thing, Tom, that always really bothers me about this: so there are large protests in the street, there are a lot of people who disagree with the government decision, but 50,000 or 100,000 people in a country of 48 million, they get to decide?

They've already had an election, a government has already been elected. Do you get to change a regime because you get a few thousand people in the streets? Is that democracy, or is that a mob? So it raises very troubling questions. What if 200,000 people marched in Washington to take away our Second Amendment rights? Is that legitimate because, gosh, that's a lot of people? It's very disturbing.

**WOODS:** Well, if I'm understanding this correctly, when the Ukrainians decided they weren't so keen on being associate members of the E.U., the accusation came down that, well, they're being pressured and bullied by Russia not to do it, as if it's just sort of obvious that everyone in his right mind would want to join the E.U., so there must be some sinister force at work stopping you.

**McADAMS:** It reminds me of the old archetypal European aristocrat who carries about in such an aristocratic manner, but when you really scratch the surface, you find out the guy's completely broke, and that's the E.U. right now. They've spent millions propagandizing the Ukrainian people about how they should join the rich West, but look at Spain: 50 percent unemployment in some sectors. Look at France. Look at Italy. Look at Greece. You know, it's almost comical. And as you point out, everyone is saying, "Well, Russia is bullying Ukraine into avoiding an E.U. agreement." But who's doing the bullying? It's all of these European and American politicians and diplomats out in the streets of Kiev, which is so unseemly, and so outrageous.

**WOODS:** Well, Daniel McAdams, we're just about out of time. But I want to remind people, here we are getting to the end of 2013, and as people are thinking about their end-of-year contributions, I hope they will keep in mind the important work that the Ron Paul Institute is doing—[ronpaulinstitute.org](http://ronpaulinstitute.org) is the website. If you're looking for a worthy organization that will not blow your money on limousine

rides and stupidity, but will actually get a point of view out there that will not be heard otherwise, then please keep the Ron Paul Institute in mind.

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# Against the State

## Guest: Robert Higgs

### December 16

*Robert Higgs, a senior fellow of both the Independent Institute and the Ludwig von Mises Institute, holds a Ph.D. in economics from Johns Hopkins University and is the author of numerous important books, including Crisis And Leviathan: Critical Episodes in the Growth of American Government.*

**WOODS:** There's so much to talk about with somebody like you, who's been writing so much, and speaking so much over the course of his life, but I want to start off with a little bit regarding the connection between war and government growth. And I want to play devil's advocate.

Suppose I look around the world. I look at Canada. I look at Mexico. Or I look at the South American countries. Most European countries. Almost none of them really have substantial military establishments that would compare to that of the U.S., which pretty much dwarfs the rest of the world. And yet, they all have very, very substantial public sectors. They have very, very big governments.

So, if everybody basically winds up with a big government—after going through the twentieth century, everybody wound up this way—couldn't you make the argument that, war couldn't have played that big of a role in the growth of government after all, because everybody—big military or not, lots of wars or few wars—winds up as a big government?

**HIGGS:** You could make that argument, Tom, but you'd have to ignore the history of how those various governments came to be as big as they are today.

One of the things that happens in modern war, wars like those in the past century or so, is that, of course, the government mobilizes a large part of the economy for warmaking, often adopting the more or less centralized control of, if not all resources, at least a large part of them, and controls prices, and in many cases—in the world wars, for example—it conscripted workers on a very large scale, and so forth.

Now that looks like the sort of thing that, all right, it creates big government during the time that the war is going on, but the war ends, and then those things go away. And, in any event, even if they don't go away completely, it is still just military-related aspects of government controls.

But what has actually happened in the war emergencies, especially during the two world wars, is that, during the war, government doesn't simply expand along strictly military lines. In fact, the tendency is to expand almost across the board, so that opportunists of various kinds take advantage of the wartime situation, which reduces the normal obstruction and resistance that government faces when it seeks to expand, reduces them in a way that allows non-war-related interests to obtain what they were probably seeking for a long time beforehand.

When you come out of the war, you've got a lot of things that have grown in government, many of which are not going to simply go away because they can't be justified anymore. The war is over now. They will look as if, in fact, having gotten underway during the war, or greatly strengthened or enlarged during the war, then the end of the war provides all the greater reason for keeping them and making them even bigger than they were.

So, I think, when people look at what actually has happened historically, they see that warfare and welfare as state activities, in some general sense, have tended to go together. You see that, for example, in the greatest welfare states. People have often pointed out to me that Sweden has a very large government, as these things are usually measured, and yet Sweden was not even a belligerent in the world wars. And that is true.

However, what did happen during the world wars in Sweden is that the Swedish government prepared to be a belligerent, and so, even though it didn't fight, it did the very same things that were being done by the governments that were belligerents in those wars, and with the same results. So Sweden ended up with a huge welfare state.

But of course, so did France and Germany and practically all the other western European countries. And, with a little bit of a lag, so did the United States, Canada, Australia, New Zealand, and other places where the European civilization had been expanded abroad.

**WOODS:** You know, I started off wanting to talk more about war specifically, but talking about the welfare state, this prompts just a series of questions in my mind.

There are a couple of different ways we can look at the welfare state in general. We can look at the welfare state as a benign thing that's introduced by well-meaning people and it just happens to go wrong. People just happen to become dependent on it. This was no part of the intention, but that's what happens.

Or it could be that the welfare state was intended to work this way. There were sinister intentions behind it. Like Bismarck, its architects wanted the people to become dependent on the regime. That's why they created the welfare state.

This whole thing is a subset of a more general disagreement that we might identify with Murray Rothbard and David Friedman. If you read Rothbard's essay "Anatomy of the State," he takes very much the sinister view. The state wants to advance its interests. The individuals who are part of it want to expand

their power, and they do so by monopolizing certain power centers in society. David Friedman doesn't find it persuasive that state officials are all sinister, and they are all just entirely self-interested. His view is that, probably, most state officials believe that, without the state, things would be much, much worse for everyone.

So, is it possible to reconcile these two views? Or do you come down more on one side than the other?

**HIGGS:** I think there is obviously an element of both going on historically, in the West, at least. And there's no gainsaying that many of the friends of the welfare state over the past century or century and a half were sincere believers in it.

At the same time, it's pretty easy to see that, as I mentioned earlier, the war provides a golden opportunity for opportunists of all kinds, including those who have been trying to create or expand a welfare state. In a lot of cases, especially in European countries, many of the welfare state government type of actions or programs that came into being during wartime were put there as a way to placate people for their suffering, for the costs they were bearing while government transferred so many resources from butter to guns.

Along with that attempt to placate people—to say, “all right, I know we've used all the lumber to build shipyards, so there's no lumber to build apartments for the shipyard workers to live in”—they've created things like daycare centers for their workers' kids. They've created government housing for the workers to live in. And, of course, once you do something like that, you create a precedent. You give people new ideas, and you soften up people who wouldn't have liked those kinds of government programs before, because you can always go to them and say, “Look, we did this during the war and it worked pretty well. We can do it even better in peacetime.” And all those things have happened historically.

I think one needs to view this process not as an either/or matter, but as a process of reciprocation, of these two kinds of people and these two kinds of motives interacting constantly with one another.

**WOODS:** Well, it's easy to imagine how these kinds of people can persuade the public that the welfare state is a benign thing, because, of course, we are just trying to provide for your material needs. But they've even tried to persuade them that for all the sacrifices that people have to make during wartime on the home front, it sure gets the factories churning out goods, and it gets people employed. It's got people persuaded that war is actually a net benefit for them.

Now, do you think, in your corpus of work, there is any subject where you have had a bigger influence? I think now people who still say World War II was a boon for the economy are either ignorant of the scholarly literature or dishonest.

Do you think that's your most lasting contribution in terms of not just influencing libertarian minds but also the mainstream?



**HIGGS:** I really don't know, Tom. I've had some effect there, I think, in arguing against the kind of vulgar Keynesian idea that war got the U.S. economy out of the Great Depression. But even there, it's pretty obvious to me that my influence has been very spotty. I think I have had some influence among the academic economic historians. But, if you look at the macroeconomists and the mainstream who write about the Great Depression, my work is almost unknown to them, either because they ran across it and thought it was not worth taking into account, or because they just never ran across it.

I think some people don't really understand the extent to which a macroeconomist in a top university lives in a very tightly enclosed universe of scholarship and research. It's a relatively small handful of people who are writing papers aimed at one another, basically, and they are trying to do things like use new techniques, and they are trying to show off that they've been able to solve some technical problem that has arisen in econometrics, or something of that sort. They're not reading the historical literature on the Depression or World War II. Most of the time, they know almost nothing about it, other than the statistical theories they can pull off a standard database, like one that the St. Louis Fed maintains. And that won't really tell you anything outside of, again, that very narrow framework of thinking about what was going on.

I know it's probably hard for people outside the profession of economics to believe that people can be so blinkered, but they really are. I think to this day if you took a random sample of people who teach and do research in macroeconomics and just ask them, "Have you ever heard of Robert Higgs?" I think probably not more than five percent, if that, would say yes. And if you asked them, "What do you think of his ideas about World War II in relation to getting the economy out of the Depression?" I think you would just draw almost a universal blank.

I don't think they know this kind of argument at all, and if it were put in front of them, I think they would dismiss it because it doesn't just hew the typical line that macroeconomists hew about what kinds of data they look at and what they think they mean or don't mean. And that's a big part of my argument, basically quarreling with the national income and product accounts and saying this is baloney. Of course, when the government comes to suddenly spend almost fifty percent of the GDP, yeah, GDP is going to balloon up. So what? What does it mean? What are you getting for that? But those aren't the kinds of questions economists in general, and macroeconomists in particular, are interested in asking or answering.

**WOODS:** What is it exactly—I don't know, philosophically or economically—that you need to break down in their heads in order to get them to understand your point, which seems so clear to the rest of us?

**HIGGS:** I think in a way it's impossible, Tom, because as long as they view the national income and product account as the data, they are never going to understand the heart of my argument. One of the main reasons why they haven't bothered to even look at it, I'm sure, is that when a macroeconomist looks at a piece of work, he is expecting to see a formal mathematical model and a bunch of econometric exercises, and that's not the kind of work I did on this issue. I did it in other parts of my career on other issues, but I didn't do it on the effects of World War II on the economy. So, they look at it and they say, "Mmm. No model. No econometrics. Nothing." That is the way they evaluate research: You've got no

model; you've got no econometrics; you've got nothing.

**WOODS:** On the other hand, people can actually read what you write. You know, there is still an old-fashioned benefit to that, if you ask me. Well, once you and I finish chatting, I will leave people with the URL for a special page where I've put up links to your work on this so they can follow exactly what your argument is. [TW note: the link is [LibertyClassroom.com/war](http://LibertyClassroom.com/war).]

I want to shift gears a little bit because I'm very interested in the evolution of Robert Higgs as a thinker over the years. I first read *Crisis and Leviathan* in the early 1990s, and I was very, very interested in it, so I've been following your work ever since. I read your initial article on the World War II question, and I just kept on following it. But, then, if I read your blog posts today, or if I read your Facebook updates, it's like, if not a different person, a much more in-your-face-anti-state person.

So, what has changed in your thinking? Is it that you look at the world differently, or is it the world has become so grotesque that it made you go back and say, "You know what, I used to be willing to give the state a little bit of quarter," or, "I was willing to allow the state this and that, but now, given the experiences I've had observing the world, I just can't give them even that anymore?" What happened in your mind?

**HIGGS:** I think your latter option there is pretty close to what happened in my thinking, Tom.

Part of what colored my original work in political economy, which really started in the broad sense in the early 1980s, was participation in the academic debates that were involved in this issue.

My colleague at the University of Washington, Douglass North, was regarded as the expert, or at least one of the leading experts among economic historians, in the interplay of government and the economy. Doug and I, back in the '70s, used to talk about some aspect of this almost every day, and finally, I developed my views to the point where I thought, well, now, I'll try actually writing something that will make a professional contribution in this area. And, when one does that, of course, one has to situate his own articles and books relative to the existing scholarly work. But, by doing that, one confines himself, and one allows, as it were, the previous researchers to set the limits and define the terms of the debate. At that time, I was much more inclined, therefore, to take seriously a lot of the orthodox explanations for the growth of government. Things related to governments dealing with externalities and provision of public goods and blah, blah, blah. All the ways in which government is alleged to have responded to so-called market failures.

With the passage of time, with more and more research into how various government activities and programs actually got started, how they were perpetuated and enlarged, it became obvious to me that these standard ways that the economics professionals were approaching the issues were just irrelevant. They had almost nothing to do with the actual history of the growth of government. And at the same time, the more I learned about government, the more difficult it became for me to take seriously all of the public interest claims that political actors, both the politicians themselves and the people who are seeking various policies and laws, were making. Claims about how the public interests would be promoted. It became

more and more obvious that almost everything the state does is an attempt to aggrandize its own leading actors and to transfer wealth from a looted class to a looting class.

Of course, this is all bound up with ideology, because you can't just go out in public and tell people I want this program because it's going to enrich and empower me, and allow me to enrich my cronies who support me for political office. That doesn't feed the baby politically. So you have to go out and cover everything in a fog of ideological obfuscation. That's the kind of fog in which political discourse is constantly submerged, and it makes it more difficult to cut through who's doing what, why. But if one is serious about his scholarship, you can eventually, I think, get a much firmer understanding of who's doing what and why.

When I did that, it led me to almost totally abandon any ideas I'd started out with about government as a solution to any kind of real problem. To be Reaganesque about it, government is the problem, regardless of what part of the social landscape, economic landscape you look at, almost everything that's wrong there would be better if government hadn't been involved. So, I think, if one is serious about history and serious about learning enough economics to interpret history, then it becomes almost impossible to put a smiley face on the state and its growth, and that's what happened to me.

And of course the state does so many, many things that are simply outrageous and cruel and barbaric and savage that, you know, what kind of person wants to support that kind of organization? It's just a bunch of criminals at the top, and on the supporting areas. And, of course, many decent people get dragged into this. They are lost in the ideological fog. But the movers and shakers are not lost in the fog. Most of them know what they're doing. They're aggrandizing themselves. They're accumulating power. And they're enriching themselves and their cronies.

**WOODS:** All right. I think I'm understating the case then, when I say your view on politics is one in which politics—running for office and getting elected and voting for people—is unlikely to solve our problems. I'm pretty sure I'm on solid ground there.

So, let me ask you then, if politics is more a waste of time or a distraction, then what kind of theory of social change do we entertain to imagine how, without politics, we make the transition away from the statist system to something more humane? Or is it, indeed, even possible to imagine a transition away from the current system?

**HIGGS:** It's possible. You know the fact that the development of statism and the apparatus of the state has become so gargantuan doesn't guarantee in any way that it will last forever. If the state leaders are so obtuse, and I think they can be so obtuse, that they push beyond the limits of what can be borne—that is, they push the economy and the society into a situation where the government's domination results in a mass impoverishment, then I think we can fairly easily imagine rebellion—if not overthrow of the whole system, a very substantial recasting of it. Perhaps that's what happened in the Soviet Union.

But in any event, one can certainly imagine that the current system will not simply get worse and worse

forever. I do think it's going to get worse in the United States for quite a long time before there's some kind of reaction against it that will be substantial. Along the way, I expect to see a lot of ebb and flow around the edges, but ultimately, it's going to threaten the goose that laid the golden eggs, propping all these politicians and their cronies up. And at that point, something more serious will have to happen.

Meanwhile, for those of us who must live in the midst of this mess, I really think it's a much better bet for people to look at this situation not from a societal perspective, not from a "how can we change the system?" perspective, but from the perspective of, "What can I, as an individual, with my family, do to wriggle out from under, avoid, evade, escape, beat the system? How can I actually do something that's open to me right now, or can be made open to me in some way? What can I do?"

I just think politicking is a lost cause in the current context. The American people and the people of western Europe are sunk in statist thinking, and it's just such a long, odd project to suppose that we can somehow educate them, or open their eyes in a way that will be politically productive, that I think people really owe it to themselves and their families to start looking around at how they can walk away from this system, to do whatever is necessary to avoid its harmful effects on them and their families.

**WOODS:** Well, after an answer like that, I'm afraid this final question is anti-climactic, but before letting you go, I did want to know from your point of view as a scholar, are there any areas in economic history, or indeed economics or history separately, that you'd like to see young scholars focus on, where there's good work to be done that may have, indeed, some libertarian implications?

**HIGGS:** Oh, I think there are many, many areas of research that young people can launch into. I still believe that World War II, where I did a good deal of work myself, has a tremendous number of possibilities connected with some aspect of it for research, because the government was so big during the war and did so many things.

Also, World War II was extensively documented. There were millions of clerks in the government during the war, keeping records eight at a time, and so there's a lot of evidence and information available, along with seeing standard things, such as memoirs and newspapers and what have you. But there are a lot of agency relics in the archives now that researchers could use. So I think World War II is a very important area where good research can be done and should be done.

But there are also many areas connected with the postwar economy that also cry out for more work because, for a long time, the work was just what economists did on current events. But that work, as I've suggested already, was colored and confined by what was the orthodox approach of economists, and one can certainly go back and redo that from a more intelligent perspective. Go back, for example, and look at the development of the welfare state in the 1960s and early '70s from a more Austrian economics perspective, from a more realistic political economy perspective, rather than this old standard mainstream macro/market-failure perspective that has been the main way in which economists, and following them, the mainstream economic historians, have dealt with that material.

And, of course, there are many, many others. I know your listeners don't want to hear me go on about all the opportunities for good research, but those two certainly are candidates.

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# The Poverty Cure

## Guest: Michael Matheson Miller

### December 17

*Michael Matheson Miller is Research Fellow and Director of Acton Media at the Acton Institute, and directs Poverty Cure (PovertyCure.org).*

**WOODS:** You and I have met in the past at the Acton Institute, but I first became aware of Poverty Cure—I’m sorry for being so dense and out of it—because somebody posted on my Facebook page that, I really ought to have someone from this organization on my program.

I looked at it and said, “Holy cow! Of course, I should feature someone from this organization.” You’re talking to a guy right now who once said, “I would support foreign aid only if I hated the human race.” Then somebody went and started a Facebook group called I Would Support Foreign Aid Only If I Hated the Human Race. Then I looked at these wonderful stories as examples of ways that don’t involve government-to-government aid that have really transformed people’s lives, so I thought, all right, we’re definitely doing this.

So before we get going on the substance of foreign aid—why, why not—and entrepreneurial solutions—why, why not—first tell us a bit about what Poverty Cure—povertycure.org is the website—is all about.

**MILLER:** Well, part of the idea of Poverty Cure is we wanted to really engage the question of how we think about poverty. How do we think about poor people in a different way? So, one of the things we do—I think this comes out of good intentions—is we see poverty, and we say, “Oh, my goodness. What am I going to do? What can I do to help? How can I alleviate poverty?”

As I said, I think this comes from a good heart, but I don’t think it’s the right question. I think a better question is how do people in the developing world create prosperity for their families and communities. Now, it sounds like a little shift; okay, that’s not a big deal. But, actually, if you think about it, it has tremendous impact because it takes the focus off of us and what we’re going to do to come in and save or help people, and help build their economies, and puts the focus where it belongs, on people who are the subjects and the protagonists of their own development.

You know, Pope Francis, before he was elected Pope, had this line when he was Archbishop of Buenos



Aries. He said, “We can oftentimes make people into the objects of our charity, instead of the subjects of their own development.” And I think, unfortunately, despite good intentions, this is across the board, so many well-intentioned people have tended to make poor people the objects of our charity, as if they’re somehow different from us.

So, part of the goal of Poverty Cure is to reframe the debate and talk about entrepreneurial solutions to poverty, rooted in this creative capacity of the human person, created in the image of God with creative capacity.

So, what does this mean? How does that mean we engage with people in the developing world? And also, the other thing we wanted to do—I think you can see this in our video series; you can see it on our website; now we have a documentary that will be out early next year—is that, too often, poor people are portrayed as somehow incapable, like sitting there with flies on them, like objects, like we’re looking at them as objects, instead of as competent, capable, energetic people.

We did about 150 interviews for this project, Tom, and we interviewed people all over the world. We interviewed everybody from the development economists like Hernando de Soto; to the Director of the Center for International Development at Harvard, Ricardo Hausmann; Paul Collier, who wrote *The Bottom Billion*; the President of Rwanda, Paul Kagame.

We also interviewed a guy called Joshua Omoga, who lives in the second-largest slum in Africa outside Nairobi, called Kibera. He borrowed eight dollars from a friend to start a business. We talked to him.

I talked to a Ghanaian entrepreneur called Herman Chinery-Hesse, and I’ll tell you some of his stories later. But he said something very powerful. He said, “Look, there are so many people that are stuck in a hole with all their skills and all their talents, and that’s unfortunately just the way it is.” He said, “The people here are not stupid. They are just disconnected from global trade. That’s all.”

So, one of the things at Poverty Cure is that wanted to represent poor people, not as something different, but just like us.

**WOODS:** Of course I love to hear stuff like this, yet I want to start with the bad and get to the good. I want to start with what has not worked. And, of course, what has not worked is a policy that does exactly what you are telling us to avoid, and that is the state-led development programs that involve a transfer of wealth from the West to these developing countries.

This was the conventional wisdom in the ‘50s and ‘60s. Then, by the 1980s, people were beginning to abandon that conventional wisdom. Although, starting in the 2000s, now we hear about the new economics of foreign aid—which, if you look at it closely, sounds an awful lot like the old economics of foreign aid.

But what went wrong initially when they tried what, as you say, seemed to be well-intentioned, and seems to be superficially what you would think needs to be done? These people don’t have capital. Let’s hand

it to them. These people don't have money. Let's hand it to them. What went wrong with that?

**MILLER:** I think some of it, as you point out, begins really with this kind of modern concept of the last 70 years, of this idea that, if we could just marshal large sums of money and send it over to the developing world, we could jumpstart economies. They could make the jump into industrialism and take off.

Some of this comes from the Marshall Plan. You know the Marshall Plan was that after World War II we're going to rebuild war-torn Europe, and the United States contributed some money to this. Now, there's debate about the Marshall Plan, which we could get into, but I don't want to get into that. Let's just assume the Marshall Plan worked, whether it did or not is another story.

**WOODS:** Yeah, right.

**MILLER:** You know it's only about two percent of GDP to highly developed economies. What has been given over to foreign aid is sometimes up to thirteen percent or fifteen percent of their economy.

You point out something very important. People think of foreign aid—now, let's make some distinctions here, all right? I know your listeners are all on top of this stuff, but—sometimes we think of foreign aid as just money that we give to the developing world. But foreign aid, as you alluded to earlier, is tax dollars that go to our governments, which then send money to either international organizations, and those international organizations and our governments, European and the United States, send money to governments over in the developing world.

So these are government-to-government transfers. They're for things like infrastructure, roads, healthcare, electricity, etc. So this idea, somehow, that we can jumpstart economies, that was behind it because a big problem of poverty needs a big solution. Right?

The problem is that several things went wrong. Number one, this money oftentimes would subsidize corrupt governments, who would actually take the money and not give it to the people in need. Number two, it began to create a big industry around it, not only international organizations like the United Nations and the World Bank, but a whole group of what are called nongovernmental organizations—NGOs or charities, who actually get money from foreign aid money to either implement projects or work with people in the developing world.

For example, Catholic Relief Services gets about seventy percent of its budget from foreign aid money, which is public money. There is a consulting firm called Chemonics; they got about five hundred million dollars in government grants from U.S. aid money.

A big industry began to develop that includes government agencies like U.S. Aid, or British O.D.A., or Swedish Aid, or Japanese Aid—JAICA—big organizations like the U.N., the World Bank, IMF, and then nongovernmental agencies or private charities, like Catholic Relief Services, World Vision, etc. A lot of them are taking this government money.

So what happened? Well, a couple of things happened. One, foreign aid can subsidize dictators. Clearly you've seen that, especially in the case of Mobutu in Congo, Zaire. But it also delays the development of business in Africa because, when we give away free things, we actually crowd out local entrepreneurs. And the other thing that I think, called the public choice problem, is that, how do people get out of poverty?

What do they need to get out of poverty? Well, they need things like private property, free exchange, free association, the ability to start a business. They need justice in the courts. They need all these things. And who provides that? Well, local governments in the developing world. They provide that. And they have an incentive to provide that because when people create prosperity, that creates taxes, a tax base. So governments rely on people for a tax base to be able to survive.

Well, Tom, what happens when you don't need a tax base, because foreign aid substitutes for your need for a tax base? One of the guys interviewed, Mike Fairbanks, said that "Foreign aid cuts the sovereign link between a government and its people." The government no longer has an incentive to create private-property regimes, and make it easy to register a business, and provide for justice in the courts. Instead, the government gets involved doing all these things it shouldn't be doing, and doesn't do the things it should be doing, because the aid system creates incentives for them not to do those things. Then what happens if poor people get out of poverty, Tom? Your aid industry goes out of business.

Unfortunately, despite good intentions, we didn't really pay attention to economic incentives and to human action. We didn't pay attention to how people actually operate in a marketplace. Economics is not just mathematics. Economics is how people operate in a marketplace, and we take incentives seriously.

So what happened is this foreign aid system has created the incentives for governments in the developing world not to build the institutions of wealth creation. And it has created incentives for all these people in the poverty industry to stay in the business. Let me give you one other example. Here's another thing that aid does. It delays development of business. It also creates deep-seated crony capitalism.

I was talking to Herman Chinery-Hesse, the Ghanaian entrepreneur I told you about. He told me this story. He said five companies got together to bid for a government project in Ghana. Everything was going very well. They were about to get the job. One of their competing bidders was a European company, and they got their government to make a soft loan to Ghana on the condition, of course, that they would get the business. "So," he said, "the government came up to us and said, 'We love you guys, but nothing beats free money.' So, we lost the business."

Here's another thing we do. We subsidize our agriculture. We overproduce, then we send free food over to the developing world, or unfair tariff food. We disempower local farmers, and then we blame free markets. Okay? What we have is deep-seated crony capitalism. I talked to Theodore Dalrymple, and I told him about Herman's story and he said, "Of course. I've worked on projects like that. I've worked on projects where there's no way the company would have gotten it in an actual market." So much of foreign aid actually becomes a subsidy to companies who do the work. And Dalrymple said, "Yeah. Aid's been very good to me. I bought my first house with the proceeds of aid."

So what has happened is, despite the good intentions—and I want to be very clear here: most people who work in what I call the poverty industry are not out to make a buck. They're out to actually help. But what has happened is we've created a system that excludes poor people, and prevents them from creating prosperity for their families and communities, and has created a deep-seated crony capitalist poverty industry where the poor are just excluded, and people who work in the poverty industry benefit.

**WOODS:** All right, let's turn this around then, Michael. Let's talk about what the good stories are.

In the beginning we said we need a complete paradigm shift. We need a change in the way we think about this. Instead of "Hey, what can I do? What can my government do?" Instead of "What can these people do?" What have been the fruits of trying to push the conversation in that direction? What are some practical fruits of your efforts?

**MILLER:** Well, I think some of the fruits of our efforts—you and I talked about this—Poverty Cure does basically three things. First of all, we are trying to shift the paradigm of how we understand and think about poverty. Two, we do training and engagement through the Poverty Cure DVD series which is a six-part, 152-minute video curriculum that tells a lot of these stories. And then the third thing is we have a network. We have about 250 partner organizations, and some of these are people who work with orphans, people who do micro-finance, people who do small/medium investment enterprise loans, etc.

So part of what Poverty Cure is doing is trying to reframe the debate, and then bring people together who are operating in a way that is not encouraging paternalism, but really going alongside.

One of our partners is a group called Partners Worldwide. They are actually here in Grand Rapids where we are located. Partners Worldwide, they help these develop. I've actually met some of the people they've helped. One company I met was in Haiti.

Two Haitian men started a group called Enersa, which produces solar panels. Most people are shocked to find that solar panels are actually made in Haiti. So they are hiring guys out of Cite Soleil, which I think in 2004 the U.N. said was the most dangerous place on the planet. They are hiring guys out of Cite Soleil. They are having jobs. They are taking care of their families. And they are transforming local economies.

There are two problems. One is, look, that's exciting, but it's not big, and we're always looking for a sexy solution. We're always looking for the next kind of cool thing that's going to be the silver bullet to solve all poverty. But you and I both know there is no silver bullet to solve poverty. People get out of poverty when they're enabled to exercise their God-given capacity, and they take care of their families and their communities. So, what you see with this story of Enersa, the Haitian solar panel company, is precisely that.

But, guess what, Tom? Guess what one of their biggest challenges is? Besides a rough business climate in Haiti, one of their biggest challenges is free things given by foreign nations, so they can't actually sell their goods. They were selling fifty to sixty street lamps a month. They make solar panel street lamps.

After the earthquake came in, there was an influx of free things, and they were selling five a month. So it's not only foreign aid that hurts people, it's actually private charity that hurts.

**WOODS:** I don't know. Part of me can't quite accept that. I mean, on a common sense level, I get it that it's hard for me to get going and get an industry going if free things are coming in. But, I don't know. Can free things really be bad? Surely somebody benefits from getting free things.

**MILLER:** Sure. Somebody does benefit from getting free things on a short-term basis. Let's take an example. I'm going to start with this really little, minute example, but I think it helps.

Peter Greer was in Rwanda, and when he was there, he got to know a guy named Johnno. Johnno had just started a business, an egg business, where he bought some hens, a chicken coop, and was selling eggs in the community. Now a church in Atlanta decided that they were going to help. This was after the genocide. And so, again, well-intentioned people, they sent over eggs to this community. What they didn't know was that Johnno had started this business. So, when the free eggs came in, you can't compete with free, and so Johnno was put out of business. A year later, the church said, "Okay, we've done our good here. Let's move to the next group; let's move to the next area." Here this community got free eggs for a while, but in the long run, they lost the productive capacity.

Let me give you another example, Tom's Shoes, which you've probably heard of. You buy a shoe in the United States and a free shoe is given to somebody in the developing world. So this is great. You get a short-term benefit because some child poor child gets a shoe. But what if there is a local cobbler in that area who also has children? What if local business is trying to develop, and this unpredictable donation of free shoes comes in? It can put people out of business for a long time.

Now, here's the thing where I think you're maybe saying, "Hold on a minute. What's happening?" And it's this. When this stuff comes in, it comes in erratically. It's not like a market operation where people say, "Oh, this is a lower price. It doesn't make sense for me to compete." Instead it's this kind of erratic shoe drop or medical supply drop or T-shirt drop that comes in and people have no method of information to discern how it's coming in. When is it going to come in next? So actually the free things, whether in the form of private charity or foreign aid, can often actually delay and undermine the development of business in Africa and Latin America and Asia. So I think that's one problem.

You know, there's another problem. Tom's Shoes—for example, he said, "We want to give away free shoes for life." But there's something fundamentally wrong with that. Would you want somebody to give your children free shoes forever? No, of course not. You can provide for your children yourself. So part of it is just the way we look at poverty. The way we think about free things.

There's a time for emergency help. There's a time when there's a crisis and there's an earthquake or after a war. We can come, and there's a time for us to give free things. Absolutely. But the problem is we've taken the emergency model and we've made that into a long-term model of development. And what that does is actually undermine the development of local business. So, that's why free things hurt,

because it's not like you have this constant flow of free things and you know, "Okay, I don't need to go into that business because the free stuff is coming in." You don't know, and it's always erratic, and so it undermines local development and sustainability, and it creates unemployment for people.

**WOODS:** Let's say somebody said to you, "This sounds great. I'm all in favor of business enterprise developing, people starting businesses of various sizes in the developing world. That's great. We all know they need to do that. That's obvious. But they are too poor to do it. It's easy for you to sit here and talk about how wonderful the marketplace is, but, for heaven's sake, when you're earning three dollars a day, where do you get the capital to start a business?"

**MILLER:** Okay. Well there are a couple of things I'd say to that. I mean, first of all, I would encourage that person to go to the developing world, and go spend time with people who are making two and three dollars a day, and you'll discover that these people are entrepreneurial. In order to live on two dollars a day, you've got to be pretty entrepreneurial.

**WOODS:** That's a good point.

**MILLER:** There's a couple of things in this. First of all, there's the micro-finance issue. Micro-finance is developing. Micro-finance is not a panacea, but it helps people get really from abject poverty to poverty. It can be helpful unless it's done like commercial credit. So there's a lot of possibility going on with people who can really start small and grow a business. This is how economies have grown throughout history.

These people in Africa and Latin America and Asia are not somehow radically different from us. They are not somehow incapable. So the problem is—and this goes back to the key element; we go down to this question that you asked, and I know you're asking it hypothetically—are they somehow different from us? Are they somehow incapable of building economies on their own? And do they need us to come in and help them? How do you think we grew? We didn't grow with foreign aid. We didn't grow with another country's developing us. No, we grew with people working hard, exercising their capacity.

Here's the key thing. We have this false idea that we can end poverty by giving people stuff. The people are not poor because they lack stuff. People are poor because they lack the conditions of justice that enable them to create prosperity for their families and communities. And these are things like private property.

You know, in some countries, 70 percent of the land has no title. You don't know who owns the land, number one. Number two, it's almost impossible to register a business. Hernando de Soto, whom I know you've read, did a study in Peru. He had four lawyers go out and try to register a business, just like a poor woman would, riding the bus, taking the time. It took two hundred and eighty-nine days to register a little business. Unless you know the Minister. If you know the Minister, you can do it in one or two.

Poor people are excluded from free exchange. You know, Tom, I'll talk in places and people are shocked when they hear that. And they're like, "Wait a minute. Don't we need to protect the poor from competition?" But think about this for a second. When a government heavily regulates an economy, who does



the regulating? Big business, big government, and interest groups are the ones who dominate that. So what happens is, when there's no free exchange and a government is highly regulated, the poorest of the poor, they lack the political, the economic, and the social contacts to navigate a system that is dominated by big government, big business, and bureaucracy. And so they get excluded.

Unfortunately, what's happening in the developing world is that governments are doing all the wrong things. They are not actually helping to build the institutions of wealth creation. And so, the real problem is not that people are too poor, or they don't have enough stuff. The real problem is that there are what Daron Acemoglu and James Robinson, in their quite good book called *Why Nations Fail*, call "extractive political and economic institutions" that take from people instead of allowing poor people to create prosperity for themselves.

I'm sorry that's a long answer, but I think your question hits on like four or five misconceptions of why poor people are poor.

**WOODS:** I would like to think that people who, let's say, disagree with you politically, who might favor more government involvement in trying to alleviate poverty in other countries, I might say something like, "Somebody like Poverty Cure or this organization, their approach is incomplete. It doesn't have a substantial enough government role, but what they are doing, though, is valuable, and certainly I would like to see it succeed." Is that the attitude that people who might not be completely on board with you have? Or have you faced just outright hostility?

**MILLER:** Interestingly, we actually have around 260 partners. We have people from the right and left and the center. There are going to be some kind of hard left people who are just absolutely focused on the government who aren't going to listen. But I think a lot of people across the political spectrum—let me say two things they realize.

Number one, we actually do believe there's a role for government. There should be private property rights, and that requires the government to help get that title clear. We believe there's a role for government in enforcing justice in the courts so that it doesn't matter if, when we go into business, my brother-in-law is a judge. You know you're going to get fairness in the courts, and not have your things stolen from you because you don't know the right people. We believe that there's a role for government to allow for people to exchange freely, and that they're not ripped off. So, sure, we don't think there's no role for government. But we just think the government needs to do the things that they're capable of, and not try to corner the coffee market, for example.

Number two, I think people on the left and the right should all agree that crony capitalism is a problem, and when you see that a lot of foreign aid—I think when people who are authentic supporters of foreign aid because they think it helps the poor, when they realize that millions and billions of dollars in foreign aid money actually goes back to corporations in the United States and Europe, I think they begin to say, "Wait a minute. Something's wrong. Maybe foreign aid was a good idea, but the way it's worked out has subsidized dictators, benefitted big corporations, and the poorest of the poor, who we are trying to

help, just aren't getting any of the benefits."

So I actually have found not hostility from people from different areas, but, in fact, a refreshing openness and willingness to discuss with us. And we have partners who we don't agree with on everything, but they've joined because I think there's an increasing recognition that the system is broken, and that it creates the conditions for crony capitalism, and people on the right and the left should be opposed to crony capitalism.

**WOODS:** Well, we are out of time, but I want to urge people to check out [povertycure.org](http://povertycure.org). It's incredible to me that you're on the verge of 1.2 million likes on Facebook, which is borderline impossible unless you have a TV series, or you're on the radio 24 hours a day. It's basically impossible to do that, so that's miraculous as far as I'm concerned.

Michael Matheson Miller, thank for your time today. It's wonderful work you're doing, and best of luck with it.

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# Separating School and State

## Guest: Sheldon Richman

### December 18

*Sheldon Richman is vice president of the Future of Freedom Foundation and author of numerous books, including Separating School and State: How to Liberate America's Families.*

**WOODS:** This is a tricky issue for libertarians. Everybody's against NSA spying. That's a sexy issue that everybody loves to talk about, because we're all against it. But when it comes down to something like this, I think a lot of libertarians want to turn and run. They don't want to tell their friends they're against all tax-funded education.

So I wanted to bring you on, and, as devil's advocate, I'll throw some common arguments at you and see how you, somebody who's written a book on this, would parry them. Ready?

**RICHMAN:** Sure.

**WOODS:** I think the most obvious one would be that the poor won't get educated. So let's save that for a little bit later. Just about everyone agrees that there are problems with the government-run schools, and the kids aren't learning what they should be learning, but then come the excuses: this is because the schools have been deprived of funds, and we don't have the right priorities, and we favor basketball players over scholars. If only we could change this, then we could get our act together. Why would you think the solution would be getting rid of the whole system, root and branch?

**RICHMAN:** Well, the idea that they haven't spent enough money is laughable. They've been spending amazing amounts of money year after year for twenty or so years, in increasing amounts. I don't have those numbers right at hand. But they haven't shown any results. There's no improvement. We just had results released from an international test in math just last week of fifth graders, or fifteen-year-olds, I forget exactly which one. And it shows that once again the U.S. has fallen behind. It doesn't compute very well. Money doesn't seem to be making any change.

The other thing is that the worst districts in the country have the highest per-capita spending. In Detroit, or Chicago, inner-city schools, Washington, D.C., they are spending \$10,000 or more per student, and they have worse results even than other public school districts, government school districts, that spend

less per capita. There is no correlation between the amount of money spent and the performance of the children. So that is not the problem.

**WOODS:** Well, what would, in your libertarian paradise—I'm trying to be like the average guy who's objecting here.

**RICHMAN:** Sure.

**WOODS:** In your Utopia, where there wouldn't be any taxes collected, public services would be suffering everywhere. The worst suffering would be in the educational sector, because how can you expect some working mom to be able to afford school tuition? Say what you will about government and its inefficiencies, but it gets those kids in the classroom, and it gets them learning how to read and how to get out there in the economy and prosper. And you want to take that away.

**RICHMAN:** Well, a couple of things about that. A lot of those poor parents are themselves products of government schools, and I think that's one reason why they're poor.

Government produces many obstacles to individual self-advancement economically. And one of the biggest obstacles is its schools. If you look at the inner-city schools, they are just sabotaging generation after generation. You set out to ruin generations of kids, you could not design a better system than the one we have. So that's one reason alone that parents don't seem to have enough money to educate their kids.

But there are lots of other ways to look at this. In fact, in the '80s, Marva Collins was a former public school teacher in Chicago who got sick of the schools and set up her own school using a spare room in a church, and she had some kids from some of the worst schools who could hardly read. She had them reading Shakespeare within a very short time. This was publicized on *60 Minutes*, and she wrote a book, which was quite celebrated for a while. She was not spending very much per capita, so, therefore, I'm sure the parents weren't.

Then we have the work of James Tooley to draw on, which is very, very important. James Tooley has spent, oh, I don't know how many years—the last ten years or more—traveling the world, going to some of the poorest places, like in Asia and Africa, and he finds in the cities of these countries for-profit private schools for poor people. You normally don't go into one of these towns and say, "Does anybody know of a private school for poor people?" And they laugh at them, and they say, "There are not going to be any private schools for poor people. They wouldn't be able to afford it."

In every case, he finds at least one school, usually more than one, where the teacher is usually from that community, who cares very much about the kids, who works very closely with the parents, and they have sliding-scale tuition, and sometimes are even just trading produce, stuff that they're growing. And these kids are getting a decent education. They outperform the kids in the public schools.

So, this is a bogus problem that people are somehow not going to be able to afford education. They are

only judging that by the inflated prices, the inflated costs, that the government school system has. But we shouldn't be surprised that the government system has inflated costs.

**WOODS:** Well, I guess I would also say to the person who makes this complaint, try to imagine yourself in a situation in which there is no government funding of elementary and secondary-level education. Don't you think you personally would be more likely to make a donation or contribute to the endowment of your own elementary school, your own junior high, your own high school, where you feel like you have a special connection from your own experience? Wouldn't you kick in?

The reason you don't kick in now is because you don't have to. But, don't you feel like there are enough nice people in the country, given that there are enough of you who are complaining about what life would be like under libertarianism? Don't you think you guys together could probably make a difference in people's lives?

I mean, they don't ever stop and think, "Maybe I could be part of the solution, instead of sitting around trying to figure out who else could do it."

**RICHMAN:** Tom, that's a really good point. A bigger way to look at that is the fact that, going all the way back well into the nineteenth century, there have been private foundations that gave money to help kids get an education. People care about education, and lots of people, when they amass a fortune, like to endow schools or endow foundations and give scholarships. It's happening today, as well.

But you're right, it would be much more widespread if people had more of their own money, if they were able to keep their money, and if they couldn't fall back on the old excuse that, "well, the government is taking care of this, so there's nothing for me to do."

**WOODS:** Now another side of this coin, though, might be—maybe someone says, "What if I concede to you that, yes, the market may well be able to provide education, even for people who aren't that well-off financially. But you libertarians are also against compulsory attendance laws. So even if we establish schools that these kids' parents could afford, you won't force the parents to send the kids to these schools. Once again, it shows how anti-social and head-in-the-clouds you libertarians are."

**RICHMAN:** Well, I don't know what to say about someone who thinks it takes force to get parents to send their kids to school. Parents love their kids, for the most part. Poor parents are no different from other parents. One proof of that is when a government sets up a voucher program, often like a pilot program.

This is not meant to be an endorsement of vouchers; I oppose vouchers for reasons you might want to get into. But just to take it as a case, in a pilot program the government authority may say, "We have 300 slots, we have 300 vouchers to offer to parents." And 3000 people line up to get them.

So what does that tell you? It tells you that parents care about their kids. Parents know that their kids are getting a rotten education in government schools, particularly in the inner cities. And when they get

a chance to do something about it, they grab it in great, great numbers.

So this idea that we need compulsory attendance, I think it betrays a lack of confidence in people. The other problem with compulsory attendance on the part of the government is the government is going to have to define the terms. In other words, if you have to send your kid to school, it gets to define what a school is. That way, they can crush private initiative by defining something as not being a school.

What's missing from the government system, and there's no way a government bureaucracy could ever put it into the system, is entrepreneurship, something I know you know a great deal about. We need entrepreneurship in education, and in order to have that, we need to have complete freedom on both the demand side and the supply side so that people can offer new ideas, and they can try things, and they can engage in trial and error, which is always a path to success, without a bureaucracy having the right to say yes or no, or the power to say yes or no, to any idea. That's what we are lacking, and government will never be held to bring that to its system.

**WOODS:** Let's go back to the subject of vouchers that you mentioned. I guess we should address this, because you often hear in policy-wonk circles that the correct approach is so-called school choice. We'll make sure that everybody gets some amount that may be somewhere in the ballpark of per-capita government spending on education, and just hand it to the parent, and they get to spend it at government-designated schools, and then this elicits the best from these schools, because now they have to compete with each other.

What's wrong with that model? Sounds like a free market in education. What's wrong with it?

**RICHMAN:** I think that most of the people that push it and the people that helped devise it—Milton Friedman may be the major person—I believe they had the best of motives, and I think they meant extremely well by that. But I think they simply underrated how much power that still gives the government.

If the government is going to be directing the money, via the parents' wishes, to a particular school, it's inevitably going to want to attach strings to that because the money, first of all, will always be perceived as taxpayer money. Even though you could say, "No, it's actually the parents' money, because the parent is going to get taxed," that's not how it's going to appear to the general public. It's certainly not going to appear that way to the special interests like the teachers, for example, the administrators.

So they are going to demand—and you hear this every time—"We can't have tax money, public money, going to unaccountable institutions." Well, the moment that prevails, and it always does prevail, that means then the government authority gets to set rules for so-called private schools. Even today private schools are under regulation. They have the power to regulate. The Supreme Court says they can do that.

The voucher would present even more regulation. For example, in Wisconsin, when they started to let money go to religious schools, they said—the Supreme Court said—"Well, you can go to a religious school, as long as the religion is not integral to the curriculum, and the parents can opt their kids out



of the religion classes.” But there were some religious schools where religion is integrated through the whole curriculum. It’s not a discrete class you can just opt out of.

In a voucher system, that school would not be permitted to accept vouchers, which puts them at a competitive disadvantage. Some parents will say, “Well, I won’t go to that school, because they can’t take the voucher.” So there are going to be rules that will stifle educational innovation under a voucher system. While I would say, “Nice try,” I would often follow it up by saying, “No cigar.” It doesn’t really create a competitive market. It creates sort of an artificial market.

**WOODS:** I can understand, though, even though I might not agree with them, why somebody might nevertheless say, “Since the Sheldon Richman solution is unlikely to occur, this is a second-best option.”

Would you be willing to accept vouchers as a second-best option, or would you say, “It’s just going so far in the wrong direction that I just want to think about the problem differently?”

**RICHMAN:** I don’t agree that it’s a step in the right direction. I mean, someone will say to me, “Well, don’t you approve of transition steps in the right direction?” And, if I thought it was in the right direction, I might say, “Yes.” The fact is, I don’t think it’s in the right direction.

My old friend, the late Marshall Fritz, was a great champion of separating school and state. He liked to put it this way: “The voucher is like attempting to bridge a ten-foot chasm with two five-foot planks. It just won’t work.” Right now we have 88 or 90 percent of students on the government dole. They are in public schools, with about 10 percent not on the government dole. What the voucher plan presumes to do is put 100 percent on the government dole as a way of getting to zero, and he wondered how the heck does that work.

The other problem is the voucher movement is a rather disparate group of people, that half of them think the voucher will strengthen the public schools, and even Friedman argued this because of the competition. They don’t want to lose children to private schools, so they’ll get better. And the other half of the movement think it will end up destroying the public schools and actually think that’s a good thing. In other words, the competition will be so great that nobody will be interested in the public schools. Well both can’t be true. You can’t both strengthen and destroy the public schools. There’s something wrong.

**WOODS:** It’s funny. It kind of reminds me of the protectionist thing about international trade. International trade is terrible for the rich countries. But then they turn around and say international trade exploits the poor countries. Well, somebody’s got to be benefiting from international trade somewhere!

I find it interesting that, in addition to raising the kinds of issues we would expect you to raise in your book, like what would happen without these sorts of schools, what are the origins of these schools, you also attack the kind of schooling that traditionally goes on in a K-12 environment. Can you elaborate on that? What’s wrong with the actual approach that’s being taken in the classroom, from your point of view?

**RICHMAN:** Well, it was an approach that was devised initially in Germany in the nineteenth century. American social scientists and educators spent time in Germany—Bismarck’s Germany—in the later nineteenth century, and decided to bring that model here, although to some extent the model was already being pursued in the earliest days of public schools, which begins roughly around 1840 and spreads through the states.

It was a very regimented, authoritarian environment, if you think about it for a second. Kids, who are full of energy and want to move around, want to talk, they’re ordered to sit still and be quiet for some period of time, and then when the bell rings, they’re supposed to stop thinking about what they were thinking—math, let’s say—and immediately turn to something else—geography—even though they might still be full of enthusiasm for math and want to keep talking about it, keep studying it, keep doing problems, but, no, that’s not the way it goes. The bell rings, and it’s almost Pavlovian. The bell rings, and then you switch. You turn your mind off one subject and turn it onto another.

It’s a highly authoritarian system. Schools look like prisons. It’s amazing when I drive around and see schools. They look like prisons to me. And it’s an old-fashioned model that was mainly based on the idea that schools were needed to train factory workers, civil servants, and soldiers. In other words, they were serving the state, and also the state’s allies in the world of big business. They wanted to make sure there was a nice flow of quiet workers and civil servants to work in the bureaucracies, and soldiers.

That’s not what we need. Education should be about producing independent, thoughtful, innovating self-starters. And that’s not what the schools are aimed at doing. People have recognized this for a long, long time. John Stuart Mill understood it. H. L. Mencken understood it. If you go through the world of liberalism—I mean that in the sense of libertarianism—you see this constant criticism of the government system that it’s designed to produce conformity and things that we shouldn’t be admiring.

**WOODS:** You have a chapter here called, “Why There Are Public Schools,” and I just want to read this brief passage: “Despite their differences, the thinkers discussed in this chapter shared at least one principle: They believed that the school should be the mechanism through which the state, run by the intellectual elite, would shape the youth of the nation. In a word, the schools’ business would be indoctrination.”

This is not the usual version of things. The usual version is, “Education is a public good, and what’s government for if not to provide public goods?” But you and I and others take a more cynical view of what the state is up to here. When the state is giving us something for free, we want to look that gift horse in the mouth and say, “What exactly is going on?”

I’m going to ask you to put your prognosticator hat on. We can’t anticipate what some entrepreneur is going to come up with, but obviously we are living at a time when tremendous change is possible in education because of the technology that’s available. It could be possible now for more and more kids not to have to quit doing math because the bell rang and go on to the next regimented part of their day—and by the way, it would warm my heart if there were a lot of kids who felt so strongly about math that they wanted to keep doing problems. I almost was a math major, and that’s really great even to think about

that. But, it seems to me that both the technology and the falling prices, I mean you can very cheaply educate somebody now with Internet-based courses and stuff. Where do you think we're headed?

**RICHMAN:** Well, I hope it's going in that direction. There has been some slow and steady increase in home schooling, and a lot of that, I believe, is in discovering the World Wide Web, because there are curricula and different approaches that you can now follow through the Internet. So, I hope it's going that way.

All I can say is we need to spread the word, and talk about it, and let people know, because most people don't spend time thinking philosophically about these things, and they kind of do things the way they learned it. I mean, most people went to public schools, and they think, "Hey, I turned out okay, so it's okay for my kids."

The inner-city parents are wiser than other parents, I think, because they see it, and they are fully aware of the lousy situation their children are in. It's not only teachers who may not care very much—which is not to say there are no teachers that care. There are many. But, for the most part, there are some who leave something to be desired. Plus these schools are dangerous, and there are cops everywhere. It's just a stifling atmosphere, and I think people are looking for a better way, and they just seem to see that it can be done outside of the traditional framework.

We need to promote people like John Holt, who was a great philosopher of education. John Taylor Gatto. You can find his videos on YouTube talking about this. When Gatto and people like that talk, I mean, it's just so exciting what the possibilities are. And we don't need to put up with these dinosaur institutions any longer.

**WOODS:** Now, Sheldon, of course you write about many different topics. If people wanted to follow your writing online, where would they find it?

**RICHMAN:** Well, my primary writing is now occurring at The Future of Freedom Foundation, which is [fff.org](http://fff.org). And I also have a blog called Free Association, which you can reach at [SheldonRichman.com](http://SheldonRichman.com).

**Get a free subscription to the Tom Woods Show at [TomWoodsRadio.com](http://TomWoodsRadio.com).**

# Doug Casey on the World

## Guest: Doug Casey

### December 20

*Doug Casey is a bestselling financial author, international investor, entrepreneur, and the founder and chairman of Casey Research, a provider of subscription financial analysis about specific market verticals including natural resources/metals/mining, energy, commodities, and technology. His 1979 book Crisis Investing is the best-selling financial book of all time. His most recent book is Right on the Money: Doug Casey on Economics, Investing, and the Ways of the Real World.*

**WOODS:** Even though I've just introduced your new book to the audience, I want to start off, if you don't mind, with an earlier title because of how important and influential it was, and how successful it was for you. I'm thinking of *Crisis Investing* from the late '70s. That book was #1 on the *New York Times* bestseller list for multiple weeks. In my audience probably the main demographic is people in their 20s, but we have people probably up through their 50s. This would be the typical demographic. We've got some young people just starting out, and we've got some more accomplished people who have some wealth to throw around. What would you say today, in 2013, would be the key lesson that is still very valuable for people from that book from '79?

**CASEY:** I wrote that book, *Crisis Investing*, in 1978, and it came out in 1979. Amazing. It sounds like a long time ago, and I guess it was. But the timing of that book was actually excellent because I was proposing in that book and explaining why—because the economy was about to go into a really, really serious recession that could have very well resulted in a depression. Now, it didn't, and I'm very happy about that because I prefer good times to bad times. But here we are years later, and this book is out now because I think the economy is, as we speak, on the cusp of what I call the Greater Depression. It's going to be much more serious than what happened in the early '80s, and even much more serious than what happened in the 1930s. It might be the most serious thing that has happened in hundreds of years. I think this is a really big deal, and we're on the edge of it. So, that's why I'm talking about these things in this book now.

**WOODS:** Now, what was it that you were doing in the 1970s that made you so successful, and what prompted you to do those things? You're known for doing things that are contrarian and that always seem to more or less work out for you. How is that?

**CASEY:** Well, in the '70s especially, I was spending a lot of time running around the world, especially to countries around the Equator, in Africa and South America and Asia, and that was not really anywhere near as common then as it is today. It was exotic in those days. So I was an early adaptor. Now everybody takes vacations to the most exotic places in the world. So that international orientation has always treated me well, and I have always tended to look at the world as a whole. Most people just look at the country that they're born in. In fact, most people just look at the area where they are born, and that's where their world begins and ends. Most people seem to have the attitude of medieval peasants, where they are afraid to go over the next hill because they were told that there might be dragons. So that's an important part of my world, I've got to say.

**WOODS:** I remember, probably the one time we met, we were on a PBS show together where I think the host expected us to be debating limited government versus anarchism, and we were both on the same side. But it was still an interesting show. I seem to remember you saying on the way to the studio that the real huge opportunities for money making were to be found, not only not so much in the U.S., but also not even necessarily in the most developed parts of the world. There are so many opportunities, there is so much low-hanging fruit in the developing world. Am I remembering that correctly? And, if so, how do you decide where to get started?

**CASEY:** Well, you're totally correct, Tom. I like to go places where nobody else goes, and the reason for that is because there's less competition for you. If you are a normal, middle-class American boy, there's millions and millions and millions like you here in the U.S., so you don't have any competitive advantage. But if you get on a plane and you go to Senegal, or Zimbabwe, or Tanzania, you're the only guy of your type. You're the only guy that's got that particular set of knowledge and skills and connection, and you probably have more capital than locals do. Here you're on a level playing field; there the playing field is tilted very much in your favor. If you are clever, you can probably get into sitting down with the presidents of most of these Third World countries within a week or two of hitting the ground. So, that's why I suggest people look in that area.

**WOODS:** You mentioned Senegal. I have a friend who's opened a couple of sushi restaurants in Senegal. There are no sushi restaurants in Senegal except for his. When he got there, he put in ads, he got sushi chefs to fly in and train his local staff, and he said that these are profit opportunities, just as you say, that are just sitting there. He said, "Now, on the other hand, I did spend two nights in a Senegalese prison because I violated some regulation." So it's not all sunshine and lollipops, but thinking outside the box, especially today, does seem to be pretty good advice.

I want to get into your new book, *Right On the Money*. Of course, it does talk to some extent about diversifying, in terms of your national boundaries with your investments. But I want to start with the beginning of your book, where you talk about Ben Bernanke—who is on his way out, of course. You are highly skeptical of Bernanke, as, of course, are my listeners and I. But what do you say to those people who say to you, "Look, Casey, you're just a professional naysayer, and Bernanke saved us from a great depression, and he did so without even giving us very substantial price inflation. So can't you just admit that you've been wrong?"

**CASEY:** No, actually, I can't. And I want to preface what I'm going to say by saying that if there were any justice in the world, Bernanke and Greenspan before him, and I'm sure after them, would be hung from lampposts on Fifth Avenue for all to view. But, unfortunately, we don't live in a very just world where people get what they deserve. Yes, Bernanke did prevent a collapse of the economy back in 2008. That's so true. But while that's true, you don't want to confuse the immediate and direct consequences of printing up trillions of currency units with the indirect, delayed consequences of doing so that you're going to compound interest on those things, and it's going to be completely catastrophic. It would have been much better, actually, for everybody in the long run—and I don't mean just in Keynes's ridiculous view of the long run when we're all dead; of course, that's true—but I'm talking about in the next few years—to have let the banks and brokerage firms and insurance companies collapse. That would have been much better. It wouldn't have been sufficient, but it would have been a step in the right direction. He propped them up with stolen money, in fact, because those dollars came out of somewhere, and eventually, all of those dollars which are now sitting in the coffers of these big banks and brokers are going to come out into the economy, and it's going to result in catastrophic inflation. And that's going to destroy the middle class. People have to understand, this isn't a matter of abstruse academics; this is a matter of practicality. The average guy's standard of living has been going down radically in the U.S. in the last twenty or thirty years, at least. Actually, since 1971. And it's going to go down much more rapidly in the years to come. And a large part of it, not all of it, is because of the actions of the Federal Reserve.

**WOODS:** I don't know if you read *The Wall Street Journal*. I don't generally read it, but I was in a hotel the other day, and it kept being put under my door, and so I saw the headline from just a day or two ago. It was saying that the low level of price inflation was proving to be a challenge for central banks and the threat of deflation continues to loom. What does one even say about an analysis like that?

**CASEY:** Well, the first thing I'd say is it's idiotic and shameful. One of the reasons why I'm happy to be living in South America now, as opposed to the U.S.: at least people down here are used to inflation. To start with, it's crazy that these people are looking to inflate the currency, which means to destroy the currency, because it's punishing the members of the middle class that try to produce more than they consume and save the difference. That's how you become wealthy. That's how a country becomes wealthy. But they're punishing those people by destroying what they save. In fact, by making it idiotic for them to save, because they're losing five percent every year. Actual inflation is not the government's two percent figure. It can't be trusted any more than the figures tossed out by the government of Argentina. They're becoming equally unreliable actually. Inflation is, in reality, probably something like five to ten percent per year now. Anyway, what's wrong with deflation? Deflation's a wonderful thing. It means prices go down every year. And, in the past, when the U.S. was on a pure gold standard, this was before 1913, prices dropped every year. That encouraged people to save. And that's how you become wealthy. That's how the U.S. became wealthy. So these people have everything completely backwards. And the fact that a major newspaper—in fact, *The Wall Street Journal*, it's sad to say is the best newspaper in the U.S. It's not very good. The fact they have some cub reporter writing trash like and his editor doesn't bring him up short shows how low it's sunk.



**WOODS:** Doug, what are the nuts-and-bolts ways that the middle-class person is especially hurt by what the central banks of the world are doing? I mean, it's obvious that prices go up, but his salary probably also goes up. Why in particular does the middle class suffer? Why don't you suffer? Your wealth is also being dissipated.

**CASEY:** Yeah. It's inconvenience. One of the reasons is that you have to spend more and more time trying to figure out how to outrun inflation, so people concentrate more on shifting assets around, trying to beat inflation, than they do in creating real wealth. That's one thing, obviously. Another thing is, sure, his salary may be adjusted. I haven't worked on a salary my whole life. I don't really know what that's like. The average person's salary may be adjusted, but as you adjust it higher, he goes into a higher tax bracket as well. And, in addition to that, as the state grows—and the state's been growing like Topsy—for many years, you constantly have new taxes and new regulations telling you what you can and can't do. And this affects your standard of living. So, the whole problem actually is this whole idea that the state is a cornucopia and can and should do things for us. So eventually the U.S. is going to be punished for the mistakes that it's made, and it will probably climax in a war sometime in the next decade, because as things gets bad, politicians like to blame somebody else, some bad guys “over there,” for our problems instead of blaming themselves. But, it's all going to end very badly.

**WOODS:** Well, of course, we all know our government officials are always just innocent bystanders whenever something goes wrong. They were just standing there and, for some reason, the economy crashed, or Muslims attacked, and it had nothing whatsoever to do with them. It's the old story. Now, you've got a lengthy section in this book on investment and some of your ideas about what people ought to do and what you've done. You talk about gold. Not that it's all or nothing, but how do you decide between physical gold bullion and gold stocks?

**CASEY:** They are two totally different investments. They literally are. They are related, but they're totally different. You buy for safety, for prudence, for insurance. You buy gold because it's the only financial asset that's not simultaneously somebody else's liability and, in today's world, which is just full of counterparty lists—with all these banks, and brokers, and insurers are in worse shape now than they were in 2007 incidentally—and the quadrillion dollars—it's close to that—of derivatives out there, it's a daisy chain. One default leads to another. That's why you want the physical metal in your possession. And better yet, in your possession outside of your native country, so they're insulated from your government, because political risk is actually the biggest risk today. Gold stocks are speculation, a high-potential speculation, and as we speak at this moment, a very high potential speculation, because in real terms, the mining stocks are actually about as cheap as they have ever been in history. It's always different, but I'd say that as the Fed creates more bubbles, one of them is going to be in gold, and is likely to be a super bubble in the mining stocks. It's possible to get ten or twenty or even fifty-to-one on your money in the right securities. So they're very risky and very volatile, but as we speak, this is a fantastic time to buy some, so mark my words.

**WOODS:** That is excellent advice, and I'm glad that people can get the chance to hear this. When you look at other people's investment advice, like the sort of books that are offered to the general

public, here's what you should do, you should buy and hold, and you should have diverse holdings, and whatever. I mean the old advice that Doug Ramsey used to give is, just go out and put your money in a mutual fund and that will yield you twelve percent a year. Well, it's not the year 1999 anymore. What do you think are the most dangerous or foolish pieces of advice that constitute the conventional wisdom about investing?

**CASEY:** Well, the first thing, I think, is now, as we speak, we are in the middle of perhaps the biggest bubble in history, and that's the bond bubble. Anything that has a fixed interest rate yield is triple threat to your capital. You're in the dollar; that's bad news. Interest rates are going to go up; that's very bad news. And the last is the risk of default. It's more of a danger than ever, so if you own bonds or anything of that nature, look out. You're in a very bad position, and the consequences of that on the stock market and the real estate market are probably not good. The stock market could go a lot higher as money flows into it just looking for real assets to hide in. The same is true of real estate, but not likely, because real estate floats on a sea of debt. So this is a very, very problematical time for people that have assets, because the thing to remember about a depression, and we've been in a depression since 2007, defined as a time when most people's standard of living goes down significantly, most people lose, and lose significantly during a depression. So, the key is that most people's standard of living is going to drop. I'm very sorry. It's going to be unpleasant, but not as unpleasant as some of the other things that are likely starting us in the face over the next couple of years.

**WOODS:** I want to just bounce back a minute to the question on gold because I guess what you're saying is that gold shouldn't really be thought of as an investment. It's not something you're looking to make some money on; it's something that you have for a bad scenario that could occur, and it's not altogether out of the picture, that it could occur. Am I right about that?

**CASEY:** Yes, you are. I use the word "investment" in a qualified manner. Technically speaking, an investment is the allocation of capital in a place that will create new capital. In other words, in the production of business. Gold isn't an investment from that point of view. It's an asset that you save. A hoard, if you will. I hate to call it an investment. Sometimes it can be an excellent speculation. And as we speak, it is also an excellent speculation—which incidentally, I define that word as allocating capital to take advantage of politically caused distortions in the marketplace. But anyway—go ahead. I'm sorry.

**WOODS:** I guess my question is: like anything else, gold is not going to just continually move upward. It'll have zigs and zags, and yet every time it zags, it's unlike any other asset, it seems. It attracts a horde of people in the media who want to come out and laugh at everybody who has ever been involved in gold. Every single time. You don't see that when oil falls, or anything else. But, for some reason, when gold falls, you get all these hectoring nabobs out there who want to lecture everybody on how dumb it was for you to be in gold. Why do you think that is?

**CASEY:** Tom, that's a very interesting observation actually, and I think it's true because there is so much ideology that's wrapped up in gold, and all these people that constitute the establishment have a vested interest in the status quo, and a vested interest in the conventional so-called economics they've

been taught in school, and so forth. So, I think it actually makes sense that they react that way. Well, it's all a matter of psychology. I mean, these people are going to be punished in the years to come by the markets, so I just observe it as a part of the passing parade. But you're quite correct.

**WOODS:** Yeah, let them laugh now. I think you're right. My thinking is more or less the same: when you buy gold, you are not just buying gold. I think you are also casting a vote against the regime. And these people, in one way or another, are hangers-on of the regime. They take it almost as a personal affront that you're buying gold and they can't abide this.

Now, somebody reading your new book, *Right On the Money*, is going to get just a hundred-octane Doug Casey here. All kinds of stuff about investments, things that have worked for you, things that you've actually done. It's not just theory; it's practice in here. But the thing is, I also liked just your general take on current events, and so I want to put that into one giant question. I get the sense you're not too keen on the prospects for politics, so suppose you have an average American who is concerned about the direction of the country. If not politics, what should he do? Should he just look after his own family and try to provide for himself? Or is there something else that he ought to be doing?

**CASEY:** Yes, the answer is you should not become politically involved because that just cedes them power. It makes them feel more important when you direct your attention toward them that way. That's not to say that when you're at a cocktail party or when the question comes up that you should not say what you know is right, but I think it's a bad idea to become politically involved with certain candidates and so forth. Not to say I didn't support Ron Paul and the educational enterprise, which is the main way I view what Ron did, spreading the word widely from that particular podium. But, yeah, I think this is the time when you should, as the French say, *Seul qui peu*. Make sure that charity begins at home. So that's critical. Put your house in order now.

**WOODS:** Well, I want to recommend that people read your book *Right On the Money*, but I also would like you take a minute to explain to people what Casey Research does, and why they should look into that also.

**CASEY:** Casey Research has about three or four publications. So, if they go onto the website, CaseyResearch.com, they can certainly sign up for those. And we have probably a dozen paid publications that cover technology and the economy and mining, commodities, basically everything under the financial and economic sun. So, I invite people to stop by there and take advantage of it and start out with the free things.

**WOODS:** Well, definitely check out CaseyResearch.com. Doug Casey, I appreciate your time. You're a ridiculously busy guy, but you were generous with us today. Best of luck with the book, *Right On the Money*, and with everything else you're doing, and I hope we can talk with you again sometime soon.

**CASEY:** And we actually have a very clear connection in between where I am in Argentina right now, and where you are. The wonders of technology, huh?

**WOODS:** How about that? Another product of the market. All right, thanks a lot, Doug.

**CASEY:** Thank you, Tom.

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# Want to Lose Weight? Don't Count Calories

## Guest: Jonathan Bailor

### December 23

**Jonathan Bailor is a nutrition and exercise expert and a senior program manager at Microsoft. He is the author of *The Calorie Myth: Eat More, Exercise Less, Lose Weight and Live Better*.**

**WOODS:** *The Calorie Myth: Eat More, Exercise Less, Lose Weight and Live Better* is a very provocative title for a book. And I'll tell you, I personally know people who have been trying, or are trying, to lose weight with a calorie kind of paradigm. And I have to say, although I don't share their view, I can understand the superficial plausibility of that approach. Doesn't it seem sensible to say that there's some number out there, and if I take in more than I expend of that number, I will gain weight, and if I expend more than I take in, I'm going to lose it? What's the fundamental fallacy in that way of thinking?

**BAILOR:** You hit the nail on the head, Tom, when you said it's plausible, and that's why it's such a challenge to get rid of it. I like to call the calorie myth the "flat earth theory" of weight loss, because it's very plausible, and it's intuitively correct that the earth is flat. Look out your window. It looks flat. And, if it wasn't flat, wouldn't the bottom fall off? But once we understand science, we understand things like the laws of gravity. And we understand it becomes equally plausible to say that the earth isn't flat, and, in fact, that is accurate. The same thing applies with the laws of physiology and biology and neurobiology and gastroenterology. You start to see that, while it is plausible, and it is in fact accurate to say that, if you starve yourself, you will lose weight short-term, when you understand how your body actually works, you start to see the goal isn't short-term weight loss. Everyone has lost weight short-term. That's not the challenge. The challenge comes in when we look at the statistics and see that 95.4 percent of us gain all the weight back that we lost when we try to starve ourselves. The reason for this is that starvation actually works against biological law. It tries to fight against biological law. It's like trying to fight against gravity. You're going to lose eventually, because you're trying to starve your body. Once we actually understand the laws of our body, much like once we understand the laws of gravity, for example, we can actually work with our body, rather than against it, and start to achieve things that are seemingly impossible. For example, flight. Once you understand how gravity works, you can create an airplane. That doesn't try to defy gravity; it works with gravity. Similarly, once you understand how your body actually works, you can do the seemingly impossible, and that's eat more and exercise less, change the system itself, and help your body burn fat long-term, rather than store fat long-term.

**WOODS:** All right, let's talk in a minute about why we should think in terms of types of calories instead of calories per se. But I want to sort of jump ahead here, because I'm curious to know what you think about, say, some agency of the U.S. government telling us that there are so and so many calories we ought to be consuming per day. Is that a useless number, then, if we're not discriminating between good and bad types of calories, or is that still a useful baseline?

**BAILOR:** It's not a useful baseline. I'm not saying, and the research isn't saying, that calories don't exist. Calories do exist, and if you continuously overconsume calories, you of course will gain weight. It's just not a relevant measure. It's not the primary measure, and, in fact, when you use it as the primary measure, it is counterproductive, and for very simple reasons. Think just in terms of priorities in your brain: you either think in terms of calorie quantity, or you think in terms of food quality. If you think in terms of calorie quantity, you say things like, "I should drink this can of Coke instead of eating this avocado, because the can of Coke has half as many calories as the avocado." Whereas if you think in terms of food quality, you would say, "No, of course I should eat the avocado, even though it contains more calories, because it will provide an abundance of healthy things for me." And you know what? Those calories, since they are coming from healthy sources, will just fill me up and cause me to eat fewer calories later in the day, so it really doesn't matter, because my body will work to automatically balance calories for me when it's healthy, just like it does for everything else. For example, blood sugar, blood pressure—or what about every vitamin and mineral? Do we need to consciously regulate the amount of vitamin C or vitamin E or vitamin D, A? What about phosphorous, magnesium, potassium, zinc, all of those things? Imagine if we needed to consciously regulate them. We don't. That doesn't mean our body can't break down. It doesn't mean the number of milligrams of vitamin C you eat in a day doesn't matter. It just means that we can't have to consciously regulate them, and if we just focus on eating high-quality food, calorie quantity falls by the wayside, and slim and healthy become incredibly simple.

**WOODS:** You know, you say simple. I think the reason people have fallen into what you call the calorie myth is because it's so simple, because it's a number. It's one number, and if I just add up all the constituent parts of my diet, vis-à-vis this number, it will give me some answer as to how I'm doing in terms of food intake. What should people be substituting for this? Is there something they can substitute for that that's as simple as just this one figure?

**BAILOR:** Absolutely. If you cannot find what you're about to eat directly in nature, do not eat it. If you can, eat it whenever you're hungry, and stop when you're full. The reason that works, Tom, and the reason I can say that with absolute certainty, is we have the most definitive proof you could ever ask for. And this is not hyperbolic. Every single person who ever lived in any culture, anywhere on this planet, did exactly what I just described prior to the current three generations, and experienced a hundred thousand percent less incidences of diabetes, and the rates of obesity were sub three percent.

**WOODS:** Are white potatoes an exception to that rule?

**BAILOR:** White potatoes will not make you fat, if you eat all natural foods, and have only ever eaten all natural foods. The key distinction with things like white potatoes, sweet potatoes, rice, et cetera,



is we're comparing two different things when we have these nutritional arguments. One is, imagine a person who has only ever eaten things found in nature. Will that person get obese and diabetic from eating potatoes? No. That's one person. Now imagine another person. Imagine a person who has gone through the great nutritional depression, someone who was told that Wonder Bread was good for them, because it's low in fat. And someone who was told that Coca-Cola was not bad for them because it only has 140 calories, and because of this, they've eaten these toxic substances for decades, and they've yo-yo dieted, and they're experiencing metabolic dysregulation. What that actually means is they have inflammation in their brain, or around their hypothalamus. They have a dysregulation of bacteria in their gut. And they have their hormones all out of whack. This individual has a broken metabolism for lack of better terms. The types of foods someone who has a broken metabolism needs to eat to heal their metabolism is different from the types of foods someone who is already healthy can eat and avoid disease, because one person's already good to go. The other person needs to go through a phase where they heal themselves. And then, once they're in that healthy state, types of foods they could eat, such as potentially rice, white potatoes, sweet potatoes, become broader and they could eat those foods.

**WOODS:** Now how does this apply to dairy products? Are you generally pro-dairy, and, if so, would you say that people need to be consuming raw milk, or at the very least, whole milk, so that it's as close to the natural condition as possible? Or do you not come down on that side?

**BAILOR:** Scientifically, there is no such thing as an essential dairy product. I mean, obviously, we don't need to eat dairy to be healthy. That said, blanketly saying all dairy products are toxic is inaccurate, in my experience. The research shows that, for dairy and for most other things, there are high-quality sources and low-quality sources. So we want to focus on dairy products that have the least hormones and, obviously, toxic things. And also dairy products—and this is a rule of thumb that we apply to all quote/unquote “food groups”—what provides us the most of what we need, essential amino acids, fatty acids, vitamins, minerals, and the least of what we don't: say, sugar, for example. So if you look at milk, milk in an eight-ounce serving contains eight grams of protein, something that's essential for life, and twelve grams of sugar, something that is not essential for life. Contrast that to a Greek yogurt. Greek yogurt would contain twenty-four grams of protein in a serving, and about seven grams of sugar, so you're looking at a dramatically different ratio of things we need versus things we don't need. So with dairy, and everything else, you just want to choose quality sources, or the sources with the least toxins, and the most of what we need relative to the least of what we don't need.

**WOODS:** Now how does your general principle apply then to grains? You have in your book a foreword by Dr. William Davis, the author of *Wheat Belly*, and a lot of people have had a lot of success by cutting grains out of their diet, but couldn't we say that grains are naturally occurring?

**BAILOR:** Two things about the natural occurrence of grains: One, wheat is naturally occurring; bread isn't. So anyone who wants to just eat a bowl of wheat is someone who is in a much different position than someone who wants to eat a bowl of Cheerios. So, wheat is naturally occurring. Now, there's an additional challenge there. The wheat that we have in the United States, as anyone who is familiar with Dr. Davis' brilliant work will know, is chromosomally different than the wheat of biblical times.

So it is not the same thing. It's not even the same thing as what our grandparents ate. It is literally a different food. Genetically, it is a different substance. So, when people say, "What about grains?" you have to look at two key things. One, if you eat the grain as it exists in nature, that is very distinct from the way most Americans consume grains. Two, even the grain as it exists in nature, you have to say, "is that actually the grain or is it a hybridized genetic GMO mutant?" And if it is, then it's not a good call.

**WOODS:** All right, let me ask you a sort of controversial question. Do you think somebody can really thrive on a vegan diet?

**BAILOR:** I think there are high-quality and low-quality versions of any sort of diet. Can someone thrive on a vegan diet? It would be hard. No civilization who ever lived were vegans. A vegan diet without intervention, for example, cannot provide you with vitamin B12. And if you don't eat vitamin B12, very, very bad things happen. That doesn't mean you can't be healthy and be a vegan. It just means you're going to have to try harder and be a bit more militant to be healthy as a vegan.

**WOODS:** Let's talk about the part of your book that involves exercising less. Now some people love being in the gym all day and working out, but not everybody does. Not everybody has the time. And with this calorie model, people think, "Well, I need to be on the treadmill about eight hours to make up for that half a piece of cheesecake I had," or whatever. Or even just to make up for the salad that I ate at lunch. What's wrong with that way of thinking?

**BAILOR:** Tom, once we understand the underlying biology—and that's really the key here—calorie math is math. It's not biology, and the human body doesn't follow algebraic laws. It follows biological laws. And, if you look at biology law, and actual science versus algebraic theories, saying I'm going to walk on the treadmill for four hours because that burns whatever—500 calories—and I ate 500 calories of cheesecake, so now I'm net neutral, is a bit like saying I just smoked a pack of cigarettes, so I'm going to go walk on the treadmill to cancel that out. Right? Or even for some listeners who may appreciate this, I sinned, so now I'm going to buy an indulgence and that will cancel out my sins. Like, that's just not how it works. And that's the challenge and the fundamental problem with these calorie myths—is it makes it seem like the body is this simple mathematical equation, which it's not. Coca-Cola is not bad for you because it contains 140 calories. If I just said, you're eating 140 calories, that doesn't tell me anything about health outcomes. I have to know the source of the 140 calories, and we all get this because we know, sure, calories give you energy. That's fine. But they don't provide you with essential nutrients and such that you need to heal your body. Coca-Cola is bad for you for reasons completely independent of its caloric intake. Therefore, if your approach to exercise is to cancel out calories, you may very well do that, but again, it's like trying to cancel out smoking by exercising. There is something totally non-caloric that we're missing completely, which is actually the cause—the cause—of obesity and diabetes.

**WOODS:** What do you think about the conventional approach to exercise that a lot of people take? "I have to do some strength training, and I have to do some cardio, and part of the reason I do the strength training is to look good, but the other part is that, if I have big muscles, then I will burn calories faster."

Is there any truth to that basic paradigm of cardio and strength training, or is the whole thing misplaced?

**BAILOR:** There's some truth, and there's some truth to all of this, Tom. That's why it's hard, because people like to think in terms of black and white, and it's either about calories, or it's not. It's difficult to communicate nuance, as you know, in our culture. And with a lot of these things, it's nuanced to the general calorie point. It's not that calories don't count. It's that you don't need to count calories. Those are very different statements, although they sound syntactically similar. When it comes to cardio and strength training, if you want to become better at doing cardio—aka, you want to become a better triathlete—the best way to do that is to do cardio. If you want to become stronger, the best way to do that is strength training. You have to look at the individual's goals. If the individual's goal is to say, “How can I heal the metabolic and neurological function which causes obesity and diabetes?”—we have to approach exercise in a unique way, because we have a unique goal. And the unique way we approach exercise in that context—where our goal isn't to become a better triathlete, it isn't to have bigger muscles, it's to cure a disease—we end up with much different approaches to exercise, much like if your goal was to become a better football player versus a better golfer, you would take a different approach to exercise.

**WOODS:** Now, in your book you are, in a way, like the Voltaire of all this research. During the Scientific Revolution, not everyone was reading the great scientists, but Voltaire would popularize it for the general public. You have basically synthesized an enormous amount of scientific research and packed it into this book.

My question, though, involves the fact that a lot of what you're saying in this book runs totally counter to the conventional wisdom and to what we hear from official sources. For example, the food pyramid has been around for quite some time, urging us that if we don't have our eight daily servings of macaroni and cheese, we're not doing it right; or the ideas of exercise that we hear; or we have to drink however many glasses of milk—and you're saying something rather different, or at least saying that the reality is more nuanced. How do you account for the disconnect between all this research that you're synthesizing on the one hand, and the exact opposite message that's being conveyed to the public on the other?

**BAILOR:** Tom, I'll give you a very short answer, and then I'll give you a longer answer. The short answer is money. The longer answer is the quote/unquote “traditional mainstream” institutions. So let's put these mainstream institutions into two camps. One is a mainstream institution that has no financial interest in any given recommendation. The other is a group of mainstream institutions that does. An example of a mainstream institution that has no financial interest in any set of recommendations would be the Harvard Medical School or the Harvard School of Public Health. And look up Walter Willet online. He is the Chair of the Department of Nutrition at the Harvard School of Public Health. Walter and his team have publicly denounced repeatedly the food guide pyramid. In fact, researchers at the Harvard Medical School have published in the *Journal of the American Medical Association*—so we're talking about as mainstream and prestigious as you can get—that saturated fat has no relationship with the incidence of heart disease. This is published research by the Harvard Medical School in the *Journal of the American Medical Association*. No financial ties. What they're saying is completely in line with

what I say in the book. I'm just regurgitating what they're saying and making it simpler.

And then, let's go into the other arena. These are mainstream institutions that have financial ties to recommendations. For example, there is the United States Department of Agriculture. It's called the United States Department of Agriculture. It's not called the United States Department of Accurate Metabolic Science. Its interest is in promotion of a profitable agricultural industry. If you need to sell what America produces, you cannot say that any food is bad, because you've eliminated an industry. You have to say anything's okay as long as you don't eat too much of it, and therefore you bias toward calories. Or think about it in terms of these companies that put little endorsement stickers like little healthy hearts on cereal boxes. If they were to say that grain is not good for you, where do they get the hundreds of thousands of dollars they get from these companies to purchase their logo to put on their cereal boxes? And for exercise. Again, are the exercise recommendations coming from boards that are purely academic in nature, or are they from boards that have relationships to institutions which are betting on frequent and long-duration exercise? That explains the disconnect.

**WOODS:** Okay, that just blew my mind. I tend to be cynical about motives sometimes, whether it's business or government, but that explanation—that every time we criticize a particular kind of food or class of food we destroy an industry, so therefore we have to say everything's basically okay up to a point, and that in turn biases us toward the calorie explanation—just blew my mind. I never thought of that. That is absolutely brilliant.

Now I also want to ask you—I had this written down earlier, and I forgot to get to it. On the subject of exercise, I wanted to get your thoughts on CrossFit. There's a lot of controversy about that. Some people say this is the best thing since sliced bread. It's an exercise regimen that isn't totally artificial, like you're a hamster on a wheel. It involves doing things that might have some kind of remote connection to things you might do in your real life, but it's extremely intense and might not be for everybody. Do you think it's for anybody?

**BAILOR:** CrossFit has amazingly positive aspects to it, and like most things in life it can be used for good and it can be used for evil. Is the Internet good or bad? Well, it kind of depends on what website you go to. So, CrossFit—some things I really, really like about it. One, it embodies the principle that intensity, not duration—aka, quality not quantity—is the arbiter of exercise success. That is true and that is noncontroversial in the research, so CrossFit, with its focus on intensity, is brilliant. CrossFit with its focus on, I'm going to call it “female empowerment”—aka, females train the exact same way that males train, and they use heavy resistance and intensity—is amazing, because the females in this culture have been lied to more than anyone else and have been subjugated more than anyone else in this concept of, “shrink yourself and down and exercise more to shrink yourself, and eat less to shrink yourself.” CrossFit says, “No, I want strong, powerful women who can contribute to this planet just like everyone else.” And that's brilliant and awesome and I love it. And I'm so happy to be part of that generation. My mother tells me that she was taught when she was growing up that if she started sweating, she was working too hard. Like that was literally what she was taught. And I'm so proud to be part of a generation that's saying, absolutely not. The females on this planet are just as capable and

just as powerful as the males, and they need to train the exact same way. So that is brilliant.

With CrossFit and with anything else, we have to keep in mind that the most important thing, even above intensity, is safety. Because if you want to increase your health, hurting yourself does not assist in that goal. The ability to hurt yourself, if you do it improperly, is really not unique to CrossFit, though. So we really just have to keep in mind with any exercise routine, safety and sustainability is priority number one. So, just like jogging, or just like weight training or even Zumba, or karate or basketball could all contribute to injury, so can CrossFit. That's why it is really important that when you approach CrossFit or any other exercise routine, even above intensity, you've got to prioritize: do not hurt yourself. If you do CrossFit, just make sure that your wad or pod or whatever they call it has safety as priority number one.

**WOODS:** You know, Jonathan, I've written quite a few books myself and I was looking at your launch date for your book, December 31st, and I thought this publisher has no idea what they're doing, launching on December 31st. But that's brilliant. Right before New Year's resolutions. Is that why you're doing it?

**BAILOR:** Yeah. It is quite common for publishers in the health industry to take what will be their most influential title and just throw them into the arena on December 31st to help contribute to that New Year/New You, so there's quite a few health books being pushed at that time, and I'm very honored to have the opportunity.

**WOODS:** Well, I want to urge people to check out your book, *The Calorie Myth: Eat More, Exercise Less, Lose Weight and Live Better*. They can visit [CalorieMythBook.com](http://CalorieMythBook.com), and, of course, get the book on Amazon, first entering Amazon through our widget on [TomWoodsRadio.com](http://TomWoodsRadio.com), of course. But is there anything else you want to promote?

**BAILOR:** Absolutely. Grabbing a copy of the book, especially before the 31st, is appreciated. And if you go to Amazon, that's much appreciated. If you go to [CalorieMythBook.com](http://CalorieMythBook.com), you can also buy these preorder bundles, and if you happen to buy a bundle, because you want to give a book to maybe some friends or family members who are struggling with their health or with weight loss, you also get a bunch of free bonus gifts for preordering. Because preordering is especially helpful for our mission. And our mission is to make healthy healthy again, and what I mean by that, Tom, truly—and this is non-debatable—as a culture, we are trying harder than ever to be healthy. And if you look at America compared to any other culture in the world, we're trying harder to be healthy, and we're doing worse. Intuitively, it just seems like there's something wrong there. You can't try harder and do worse. The reason that's happening is because we've been given the incorrect information. And we need to make healthy healthy again, and what I mean by that is, the steps you take to increase your health today may very well have made you less healthy. Think starvation, think chronic exercise, think eating artificial products rather than full-fat, whole foods. So we just want to get science up to speed with what the mainstream believes because there's been vast, vast technological progress when it comes to food and exercise, but we continue to be told the same theories we were told fifty years ago, and that's wrong. And that's why we're trying harder and doing worse. And that's why we want to make healthy healthy

again. So the easiest way to do that is to empower yourself with this proven science. And the easiest way to do that is to pick up a copy of *The Calorie Myth*.

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## Appendix: Tom's Solo Programs, 2014

Here are the non-interview episodes for 2013. Listen to these via the archive at [TomWoodsRadio.com](http://TomWoodsRadio.com), or find them in the archive on [iTunes](#).

### **Are Libertarians Hypocrites?** (September 26)

Tom smashes Salon's article "11 Questions to See if Libertarians are Hypocrites."

### **Nullification: Reply to Objections** (October 3)

Tom talks about nullification, state sovereignty, and James Madison.

### **The Real Lincoln** (October 7)

Tom talks about the real Abraham Lincoln, the one left out of most seventh-grade textbooks.

### **The Short Case for the Free Market** (October 21)

Tom describes how he would defend the free market to the world if he was given a half hour to do so.

### **The Deflation "Threat"** (November 12)

Tom takes on the myth about the alleged threat of falling prices.

### **Rothbard Changed My Mind on War** (November 18)

Tom describes how Murray Rothbard changed his mind on war in a speech delivered at the Mises Institute.

### **Secede!** (December 4)

Tom reviews his remarks on secession last month at the St. Louis University School of Law.

### **Pope Francis on Capitalism** (December 6)

Tom talks about the economic passages in *Evangelii Gaudium* of Pope Francis.

**Ask Me Anything** (December 12)

Tom is a guest on the We Are Libertarians podcast. Topics include “the question libertarians can’t answer,” Abraham Lincoln, Gary Johnson, Rand Paul, homeschooling, and more.

**Separating the Sheep from the Goats** (December 19)

Tom takes on the three issues that separate the sheep from the goats: the Bush/Obama bailouts, state nullification, and foreign policy.