



**Episode 374 – Overstock.com CEO Patrick Byrne on Liberty**  
**Guest: Patrick Byrne**  
**April 6, 2015**

**WOODS:** I have so many things that I want to ask you that pertain to libertarianism, that pertain to the blockchain, but I also want to ask about you and your own entrepreneurial journey first. For one thing, how, how does a Ph.D. in philosophy wind up a serial entrepreneur and CEO of Overstock.com? It's not the usual career path.

**BYRNE:** Well, I am one of those guys who actually went and did my doctorate because I was interested in the subject. I didn't really ever think I was going to go be a teacher. I was interested in man and his role in the universe and his duties and how society should be organized and things like that. So it came quite naturally, but I think I was more—it's more like how did—since I was kid, I was always doing entrepreneurial stuff, and I grew up in a very business-oriented family and environment. I was always one of those small-scale entrepreneurs. So I was pretty sure my life was going to be going in this direction. It's more like I took some time out to do the Ph.D. in philosophy.

**WOODS:** Well, that makes a little bit more sense, because I didn't think that in a Ph.D. program in philosophy you were going to be exposed to a whole lot of material—of course you have to read the classical liberals, I suppose, but you're not going to necessarily going to get a sympathetic account. So where did your attraction to those ideas come from?

**BYRNE:** Well, first of all, just a knowledge of economics, and an undergraduate minor, so to speak, was in economics, and I was always exposed to pretty hardcore economics. And even Milton Friedman in the early days—although I was told at Dartmouth back in the early, well, he's kind of this obscure, we all know he's a crank now, and don't pay attention to him, but I read some things from Milton Friedman, and then I ended up doing—actually I went out and started a degree in mathematical logic at Stanford and then I won something called a Marshall Fellowship, went to England and switched to moral philosophy, and went back. My doctorate in philosophy was political philosophy, but with a lot of—I basically retooled John Rawls's argument and bringing insights from economics and law. So there was always a lot of economics mixed up in things. So I think that if you understand how the world works, which is

economics, if you understand economics, it's hard not to be freedom-oriented or classical liberal, I think. So that's part of it. Plus the part that I was always working in, you know, from being a small-scale businessperson, you learn. I think that tends to make one into a bit of a classic liberal, but also maybe I am just an ornery Irish guy. I told a story publicly recently that Milton—you know about my great friend and tutor, Milton Friedman, my relationship with him?

**WOODS:** Yes.

**BYRNE:** I got very involved in school choice, and that's how we met, and we were friends for about seven years, and Milton and Rose, and I said to him at one point—you know, I got into this very crosswise situation with Wall Street, and I was talking a lot about corruption on Wall Street and bad guys on Wall Street. I got very hot-headed. I was acting like a bit of an Irish hothead, I told him, and I said, you know, you probably don't want to be associated with me, and I understand that. Any time you want, just say so, and I'll back away, and it won't change my commitment to school choice and such. And Milton thought for a long time, and he said, you know, Pat, maybe what our side has been missing has been an Irish hothead.

**WOODS:** (laughs) Good!

**BYRNE:** So maybe these are natural characteristics. They just make one want to fight the man. I don't want to submit to authority. We never hired government. I guess I can name two other influences. I grew up most of the time in Vermont and New Hampshire, and this was this old farmer who was teaching me things, and he was a real old-fashioned Republican, not the type of Republican there are now. His version of Republicanism was like the typical crusty, Vermonter Republican as a guy who believes government should pave the roads, run the post office, stay off my porch. That's really all we want out of government. And so somewhere in the '80s, these kinds of Republicans evolved who were all into talking about people's sex lives and what they put in their bodies and all this stuff, and they all sound kind of a crazy to a real Republican. So I don't think of myself as a Republican. I think of myself, as Milton used to say, a small-l libertarian, a small-r Republican.

**WOODS:** Now I know this may seem like I am putting you on the spot, but where would be the fun if I didn't throw you a little bit of a screwball question? You've had a relationship with Warren Buffett over the years. I know you've been friendly, so I am not asking you to bash your friend, but he's such an interesting phenomenon of somebody who understands some big picture things very, very well, and he understands investing and entrepreneurship, and yet when it comes to economics, he doesn't seem to get it at all. I find that fascinating, that it can be such a bifurcation. What is your overall impression of him in that way?

**BYRNE:** First of all, we're talking about my rabbi. I met Mr. Buffett when I was 13. It was before he was Warren Buffett the myth, and he was just this kind of funny farmer, I thought, from Nebraska who'd show up once in a while, and he always made extraordinary amounts of time for me and to teach me stuff, and he's been my great rabbi. I went to work for him a couple of

years, ran a group of his companies at one point. He is a wonderful man. He is an absolutely wonderful man, and I think his move to the Left came about because of civil rights, and he said in 19—his father was a John Birch guy, in the center, and he broke with the Right over civil rights, and I said, well, you know, the '64 Civil Rights Act, really more Republicans voted for it than Democrats, and he said, yeah, but it was really the Democrats who championed—the championing of civil rights. So I think his real move to the Left probably had a lot to do with civil rights and in particular the situation of black people in America. However, he has got an argument, which is very Rawlsian, that ultimately, he views himself as having been extraordinarily lucky, that he happens to be wired with a certain skill that if he had been born in Pakistan or just about anywhere else in the world would not have paid off, but because he was born here, there was this enormous return to it, and so that enormous return is in some significant part owned by society, and that's sort of the classic Rawlsian view. Whereas, you know, the libertarian or the classical liberal view would be that we stick with attributes. We own all these things about ourselves, and we just form government not to accomplish things like creating social welfare safety nets, but we just form the government to perform a small list of things that we can't do as individuals. So it's just a different philosophical orientation.

**WOODS:** I am interested in Overstock.com. I have purchased many things from Overstock.com.

**BYRNE:** Think of all the money you've been saving. The more you spend, the more you save. Don't spend a penny more than you want to save, Tom.

**WOODS:** That's right, well, I mean, where do you think I got the money for this whole setup I've got right here?

**BYRNE:** (laughs)

**WOODS:** Well, actually donations from the listeners primarily, but still, with Overstock, I used to just assume that Overstock.com was just a shtick claiming that well, you know, there are these overstocked goods and somebody has got to sell them, and so we're going to do that. I just thought, all right, that's just a way to make it sound like these are all closeout items, and I am saving a lot of money, but it turns out that your business model really is kind of like that. It isn't just a shtick. So first of all, because I was thinking before I had you on, before I really realized the true story of Overstock, I thought: the guy is into retail on the Internet, where profit margins must be invisible. How does he possibly make that work? But you have a unique proposition here. You have a unique setup with Overstock.com. What is it?

**BYRNE:** Well, great question. And we do make money. We have been profitable 13 straight quarters, 5 straight years. We're the only pure play e-tailer who is profitable. Amazon loses billions. We are profitable. We basically generate \$80 million of cash flow. Two years ago we had \$85 million of profit GAAP that income or \$82 million or something. We're a good, profitable company, and we run it like an old-fashioned hardware store, but the basic proposition is this. The retail supply chain is optimized—normal retailers are all about getting massive quantities of similar goods from a small number of suppliers, and their supply chains

are optimized for that. There's this corner of retail that folks like you and I generally don't meet that are called jobbers. They tend to be bada bing bada boom kind of guys. I know a guy who knows a guy. I got this truckload of Titleist golf balls. I trade it for you for a truck of Sunbeam Mickey Mouse waffle makers. It's these kind of guys that clean up the fringes of retail. And so we built a supply chain that can deal in this highly flexible area of retail, and that's where we got going. So we got going with the idea we won't have everything that the big guys have, but what we have we have bought at far below wholesale, and we've bought because there was a cancelled order or a bankruptcy or something like that, and so because we're getting it so much below wholesale, we can sell it to the public cheaper than other people and still make a profit.

**WOODS:** Well, one other thing I want to ask about Overstock: I know there's some story, I don't have the details, relating to the dot-com boom and bust, and you guys were somehow ideally placed to exploit that situation. What were the circumstances then?

**BYRNE:** That was funny. Well, we tried to get venture capital at the beginning, and we were turned down by 85 venture capitalists back in the day when anyone could go into—kids were dropping out of Stanford Business School with a one-page business plan. I am going to sell dog food online. Okay, here's \$100 million. We couldn't get anyone to give us money to invest, which was funny because I had worked for Buffett. I had run my own company. I had done a bunch of things. No one would invest in this idea. So we eked along. We just barely kept our head above water. About a year later, the dot-com crash happened, and all these dotcoms went bankrupt, and we discovered the supply chain that we had built so we could handle excess inventories and overruns and cancelled orders worked really well on bankruptcies too, and we went around to these—we ended up cleaning up—liquidating 19 dotcoms that had been funded by the same characters who turned me down for money. And I like to point out I am much too mature to take any undue satisfaction at that, but at one point we were on—Doodles did a whole series on us called MyVulture.com, and it's about a guy doing just what we were doing. At one point I was asked on ABC 20/20, how do you feel about making money off other people's distress? And I said, well, Warren Buffett taught me that the first rule of capitalism is, if you're not going to kick a man when he's down, when are you going to kick him?

**WOODS:** Yeah, if you didn't say that, I was going to prompt that from you. I wanted that on the recording.

**BYRNE:** Yeah, so when it comes to business, Mr. Buffett is as bare knuckles and tough as you get. And it worked out well. It was kind of funny. That was how we got our early momentum, liquidating all these broken dotcoms. You heard about going bankrupt. That's where we got going—ironic.

**WOODS:** And as you said before, when you were talking to Milton Friedman, you're an outspoken guy, and a lot of us are that way because we run so against the grain and it frustrates us that the world isn't the way we'd like it to be. So we feel compelled to be outspoken. But do you ever fear that this going to come back to hurt Overstock.com?

**BYRNE:** Nah, I really don't. I have learned long ago: I am who I am. It's my DNA. I am just going to be true to my DNA and let things play out as they will. And it's funny: it's probably hurt more than it's helped so far, but I have often wondered, gee, the true classical liberal community out there, I wonder if they knew that if they knew that there was a CEO who is out there fighting for exactly their cause, might we get a loyalty out of it, but so far it's probably resulted in more bad press than good, but maybe you're changing that.

**WOODS:** Well, I hope so. I always call it the Tom Woods Show bump. We'll see what we can do for Overstock.com.

**BYRNE:** I watch your show. I go on YouTube all the time and look up videos of yours. I have seen great videos of yours. I love your talks.

**WOODS:** Thank you. Thank you very much. I appreciate that. I couldn't be at the AERC at the Mises Institute this year. I always pledged I would never be out of town when it's one of my children's birthdays, and it just happened to fall on one this year, but I watched yours because I wanted to know what you're thinking these days. In a way, I want to ask you the same kind of questions because a lot of my audience hasn't heard from you before, but I wanted to ask you about the cutting edge stuff that you're working on right now, and you gave a presentation on the blockchain that raised ideas that I had never thought of before. And it's not necessarily about Bitcoin per se, although, you guys do accept Bitcoin. Do you think you can explain, maybe summarize that portion of your presentation for my audience where you see peer-to-peer revolutionizing our lives and Wall Street and everything else.

**BYRNE:** Sure. For 6,000 years of recorded history, humans have always faced a choice. When it comes consensual transactions and trade, do you go peer-to-peer, in which case trust is an issue. I am giving you a camel in return for a gold coin. Do you debase the gold coin or not? Do I know you? Can I trust you? Or you can have centralized institutions that we make part of the transaction. So there's a business model, say, of whoever has the monopoly on violence on the oasis or in this area has a business model. They will print coins with somebody's face on the cover—on their stamp down the front, and say if anyone debases this, we kill you, and so that's just a—and then that coin can be accepted, and I can know it as a base. That's a way of monetizing their monopoly on violence, and we'll call that business model government. Well, there's all kinds of centralized institutions. So we've always had this choice. Do you go peer-to-peer, in which case, and there's no central institutions, but trust is an issue? Or do you have a centralized institution that we just say, well, I'll just trust that.

So land titling: if you want to sell me this piece of land, and you can give me a piece of paper that says, I can't really trust that, but if there is one central office we can go over to, and it's all registered and stuff there, so again, you need a central office. So for 6,000 years, we have evolved these centralized institutions to solve the problem of trust. What the blockchain does is it lets us for the first time in history have peer-to-peer transactions where trust is not an issue. What that does is disrupt and disintermediate all kinds of centralized social and political

institutions like central banking, like land titling offices, like Wall Street. At the core of Wall Street, there is a central counterparty clearing system. The 4,000 brokers all don't need to know and trust each other. There is one massive clearinghouse that each one just needs to know and trade with it, and it's the central counterparty. For 10 years, I have been saying that's actually the epicenter of corruption on Wall Street. Well, we can now bypass it. We can build blockchain-based peer-to-peer ways to trade stock. So the thing is, we are encrusted as a society with 6,000 years of barnacles of these centralized institutions that have developed on the premise that, well, you can't really be peer-to-peer. You need us to mediate. You need this centralized institution or another to mediate your transactions. Well, that's not true anymore because the blockchain lets you have peer-to-peer, but totally trustworthy transactions.

**WOODS:** The show notes page for today will be [tomwoods.com/374](http://tomwoods.com/374). I'll link to the talk that you gave on the Mises Institute elaborating on all of this. Let me ask you about Bitcoin in particular. You were a reasonably early adopter of it in terms of accepting it in payment, and I think it turned out that it didn't bring in maybe quite the sales volume that you anticipated. What's your experience been?

**BYRNE:** Well, we did. I think no company—they had not yet reached a million-dollar company who accepted Bitcoin, and they expected about four or five more years before they'd reach a billion at the rate they were growing, and we stepped in and accepted it, and we were a billion and a half dollar company going on to be \$2 billion. I expected us to have \$6 million to \$8 million of domestic sales and maybe the same amount of international sales in Bitcoin, but the truth is there is not much transaction. We ended up doing \$3 million. That's okay. It only cost us—it cost us a *de minimis* amount to get integrated, so it's maybe \$3 million we wouldn't have otherwise had, and it's a nice amount of business, but the truth is people buy and they hoard Bitcoin. They really aren't using it much for transactions yet.

**WOODS:** And then when you guys receive the Bitcoin, I would think given its volatility, you'd want to cash out of it.

**BYRNE:** We cash out of 90% of it as soon as it comes in because we have to pay our vendors and our employees and stuff in dollars, so we are accumulating a small amount of Bitcoin just to have some liquidity, but as soon as it comes in, we trade out of 90% of it.

**WOODS:** You've had quite a bit of business experience, not just Overstock.com. Presumably, some of your experiences have confirmed your previously existing economic and philosophical views. Your views of government. You got any juicy stories for us that might help us get into your world a bit?

**BYRNE:** Sure! And we went public in 2002, and I was swimming around. When you're a public company CEO, you're out there swimming around in the mix, so to speak, of hedge funds, and prime brokers, and such, and it was a little bit like—there was a great, old sci-fi trilogy called *The Hitchhiker's Guide to the Galaxy*.

**WOODS:** Oh, I love it.

**BYRNE:** Yeah, remember how the smartest extraterrestrials in the universe turned out to be the little, white lab mice that were here on Earth, and they were actually studying us, and they were studying us by exhibiting certain behaviors and then seeing what we humans could infer and then doing other behaviors and seeing what—so were really just testing us. Well, I was out there swimming around in Wall Street and ostensibly for them to ask questions and all this stuff, but I was really out there just studying them. And what I learned was really by '04 I had figured out there was a whole lot of criminality going on. I was asked to take part in it. It was centered on a guy named Steven Cohen and Sack Capital, and there is a whole network of hedge funds close to him and spinoffs of him that were engaged in a combination of a very well organized search for inside information they could trade in front of along with market rigging activity, and there are ways to rig the market, and this is something that some of the classical liberals don't get. Just because you think markets an efficient way to organize society, doesn't mean that there are not ways to manipulate markets, and there are, but these standard—efficient market hypothesis did not—does not really account for them, so it was a lot of the classical liberals and libertarians weren't on the right side of this debate for some time, but I knew exactly what they were doing, and I was asked to take part and such.

And so what was interesting was I started bringing data—serious economists who could support various of these claims, you know, Ph.D. economists, sometimes tough Italian guys from Staten Island. I brought all kinds of people to the purview of the regulators in FINRA and NASDAQ and the SEC and the Senate Banking Commission or whatever it's called and the House Financial Services Group and this and that. And I brought them incontrovertible data in '04, '06, '07 that there was a great deal of criminality going on; that there was manipulation of the market and massive insider trading. They had very organized ways of pursuing inside information, and that they were going to crack the system—the system was probably going to crack in the market for housing credit. But what I found was that the regulators were completely captured, that the political class was completely captured, and for every time I was in there, it was funny. People like the chief of staff of one center—I would go in with like a serious economist—a high-level, well-respected would go in and help me teach a group of senators something, and then we'd walk out one of the chief of staff pulls me aside and says, you need to understand: for every time you're in here doing this, Goldman Sachs is in here 10 times telling them not to listen to you. And we were able to predict. We knew that the market was going to crack and that there would be these problems in the settlement system when it did and things like this, but the depths of capture were just impossible for me to believe.

And in fact, to expand on that, there were some real moments that were like the Kafka story of the man goes before the law, and do you remember that story in *The Trial*, and there's—do you know that story?

**WOODS:** Yeah, I do.

**BYRNE:** And there's a giant Turk there guarding the door to the law and makes the man wait his whole life and just passively with his arms folded neither will let him in the door, nor tell him, you know, and so forth. Well, it was like that dealing with the SEC. We went in, or I sent colleagues in 20 times, not 20—10 times to teach them, explain stuff to them, and there was all this data that was going on to Overstock, but my main mission was we could see that this was going on in select places around the market and that it was going to destabilize the market, and I became sort of obsessed with showing them this in '05 and '06 and '07, but there was just incredible data. Their own data showed that there was a huge amount of rigging going on in our stock, and they sat there like the—like the Turk in the story of Kafka. They sat there to my colleagues over and their arms were crossed. My colleagues were going in front of a room with a dozen of them, and the guys would sit there and listen with their arms folded and so forth and do absolutely nothing—just refuse to do anything, and no matter where this—so we all thought that was funny.

Well, it turned out since around '07 or '08 the SEC employees have had to list their stock trades and some journal and finance professor, well, some professor recently published an article in *Journal of Finance* where he studied the returns to the employees of the SEC, and their returns beat the market by something like 9.5%. In other words, they are having Warren Buffett-like results there—those employees of the SEC—the two possibilities of which are they are just all great stock pickers or the second possibility is they are trading on inside information that they are gaining in the course of their jobs. We have a Freedom of Information Act suit against them now to find out—I think that all those guys who were just shutting us down and refusing to listen: they may have well been short our stock, which would be—in fact, I am going to be shocked if it doesn't turn out that way. That means as we were in there presenting data—if that's true, it's going to mean while we were in there presenting data to officials that showed there was absolute criminal activity going on across the market, but including in rigging our stock, and they sat there and refused to do anything, and our stock became notoriously rigged, and it was like a famous event, and everybody knew about this on Wall Street. It was written about and so on and so forth that there were really strange activities going on in our stock, and when the SEC sat and refused to do anything about it, I bet those guys who were sitting there refusing to do it were guys who themselves had bets against us, so that's why they were refusing to enforce the plain law.

**WOODS:** Very, very interesting. I just want to make sure that people know the term regulatory capture. You mean that the regulatory body, in effect, becomes an advocate instead of protector against the industry it's supposed to be watching over, or oftentimes there is a revolving door situation between the industry and the regulatory body. In the naïve view of regulation, the regulators are all wise, disinterested public servants who are going to do what's best for everybody, but it turns out generally not to be that way.

I want to throw you one more curveball, which is what would you say to, you know, in this economy where the old style of going through college and getting your degree in sociology or

whatever it is, and automatically, you're guaranteed a decent job and you can retire at 62, and that's all gone. That's gone probably forever. Even the old model of I'll just go out and wait for somebody to hire me is maybe going out the window. Do you have any advice for people just coming out of college these days?

**BYRNE:** Boy, it's tough, and it's sad because in my day you got out of college, you had five job offers. It was everyone got jobs. You had more job offers than you could look at. Now, it's like one out of five guys gets a job offer. I feel so sad. On the other hand, the problem is they are not leaving with a set of skills that are really worth it to anyone to hire, and that's why they are not getting hired. That's why there is this problem. Of course, the government is not letting the market clear. The government is a big part of the problem, but really, the advice to people is invest in your human capital as much as you can. That's something that can't be taken away from you, and secondly, don't worry about what your first job is—worry about in terms of what you're paid. It's not about what you're paid, it's about what you can learn. You got to get in the system. You got to get on track. So you take a job in a company that you like and where you can learn something, and don't worry about what your pay is, and the truth is in a year or two if it's a good company, it doesn't matter where you're started.

**WOODS:** Well, Patrick Byrne, I am going to—you know, I hope we can talk again. You're a fascinating guy; extremely generous and gracious with your time by the way.

**BYRNE:** Any time, Tom, it's my honor to be on your show.

**WOODS:** See, there you go. You're proving my point with comments like that. I really appreciate it. I will direct people, of course, over to Overstock.com. I want people to find out more about you—[tomwoods.com/374](http://tomwoods.com/374) will be the show notes page for today. If even half of what they say about you on Wikipedia is true, then people are really going to enjoy learning more about you. Thanks again.

**BYRNE:** Thank you, Tom, and they left out all the good stuff.

**WOODS:** No doubt, as they do with me.

**BYRNE:** Can I do a little favor for your listeners?

**WOODS:** Please do.

**BYRNE:** Anybody who wants: We do a Club O program, which is \$20 people pay, and you get rewards and stuff. It's quite generous.

**WOODS:** I remember.

**BYRNE:** Anyone who wants to write me in the next, let's see, when is this show going to air?

**WOODS:** It would be Monday, April 6<sup>th</sup>.

**BYRNE:** Okay, anyone who writes me by Friday, April 10<sup>th</sup> and just writes me directly at [Patrick@Overstock.com](mailto:Patrick@Overstock.com) and says they heard me on the Tom Woods Show, we'll give a free \$20 Club O membership with.

**WOODS:** Wow! That is a great thing. And I will mention that on the show notes page also. Wonderful! Okay, well, thanks again, Patrick, great talking to you.

**BYRNE:** Thanks, Tom.