



**Episode 379 – How to Think about Outsourcing, Inequality,
Energy Independence, and Lots of Other Things**

Guest: John Tamny

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WOODS: This book, *Popular Economics: What the Rolling Stones, Downton Abbey, and Lebron James Can Teach You About Economics* is a wonderful book. It's a tremendous read, and although I love the playful subtitle, I don't want people to think that it's not serious. You're going to learn an awful lot. If you look at your table of contents, your table of contents is a shot between the eyes. Every single chapter title is crushing and devastating. So we have time to talk about a small number of these topics together. I don't even have time to go over with you, you know, what made you decide to write—you know what? I don't know. We'll find that out from you another day. I want to jump into the topics. I have to get to *Downton Abbey* at some point or my wife won't forgive me. But let's look at some of these chapter titles. I mean, you have a chapter title on, for example, the phenomenon of outsourcing, which is a topic that seems to unite everybody. Republicans are against outsourcing. Democrats are against outsourcing. Everybody is against it, but you're saying outsourcing is great for workers, and it's as old as the pencil. You're going to have to justify that statement, my friend.

TAMNY: Oh, yes, well, I am glad to do it. I think our side greatly undersells free trade, which is all that outsourcing is, and to me what free trade is is it maximizes the possibility that we get to do the work that animates our skills. In my case, I am a writer and an editor, but if you suddenly told me you can't outsource anymore, you have to actually manufacture the computer you type on, build the apartment you live in, grow the food that you eat, and knit the clothes that you wear, well, I would die a quick death, unemployed, emaciated, unsheltered, unfed, and with no job. But thanks to outsourcing, I get to trade what I am best at with others who are doing what they are best at, and it gives me a life of plenty. We're all expert outsourcers because we're individuals. We pull \$5 out of our pocket, and we are outsourcing our provision of news, the making of coffee, the food we eat, everything, to others, and it's what makes our lives so rich. It's when you can't outsource that you live a life of unrelenting drudgery.

WOODS: But what about, look, I spent my life acquiring these skills, I am a computer programmer or whatever, and now these firms can go overseas, they can go to somebody from India. Whatever my skill is, all of a sudden, I am obsolete. All this effort that I put in is worth

nothing. So wouldn't it be better for America if we protected these Americans against the phenomenon of outsourcing and forced these greedy companies to hire Americans and pay them a reasonable salary?

TAMNY: I suppose we could do that, and then let's in the process banish the computer, the ATM machine, maybe the tractor, and a couple of other labor-saving devices. I know I am preaching to the choir here, but let's face it: outsourcing is what we do all the time. I am always amazed when people email me and say what an awful person I am for wanting to send jobs overseas, and I say, well, you're typing this on a computer. Do you realize how many jobs your computer destroyed? Now, the point here is that the computer, of course, did make a lot of work redundant. So does the ability to outsource make a lot of work redundant, but that's merely the seen. The unseen are all the jobs, the much better paying jobs that outsourcing creates as a result. Let's face it. Businesses operate on profit. That's what attracts investors who create the jobs in the first place. If businesses are not seeking profits, they will quickly be bankrupt, and there will be no jobs. Outsourcing is the beautiful process whereby we not only perpetuate work in the United States, but we maximize the possibility that we will get paid the most for it and that we'll get to be the best at it.

WOODS: I have often thought of it this way, that it is the equivalent materially of a situation in which products and services were just falling from heaven or falling from heaven very cheaply or something, but in effect falling from heaven, and we indignantly rejected them. No! No! We don't want these free things! We want to work for them instead! We know that wouldn't really make any sense, so I don't see how it could make sense here, either. That's always been my shorthand way of thinking about it. Any policy that tells me to reject indignantly a free gift can't be good overall.

TAMNY: I love how you put it. You put it better than I do. And maybe we expand on that. One of the great lines in Hazlitt's *Economics in One Lesson* is he makes the point that what's forgotten is that what's good for the individual must by definition be good for the economy, and so thinking of outsourcing, we as individuals are constantly outsourcing, but what if they in India created a cancer cure. Would we say, oh, no, no, no—to your point, we're not going to accept that because that was created in India? What if they create a private jet that we can all own in Singapore? Are we going to repel that? Obviously as individuals we're not, and so the outsourcing is the same way. It's benefits coming from somewhere else. The Chinese make for us the shoes, socks, and T-shirts that if we made, that kind of work would impoverish us. Instead, they make it for us, and it gives us time to create Google, Intel, and Microsoft. Are we going to refuse that which enriches us so much? I think we both agree we're not going to.

WOODS: Mises says at one point that obviously in the market economy there are a lot of changes, and you have to have great entrepreneurial foresight, but that nobody complains when the changes benefit him—that they involve, as you say, new products and so on. Nobody complains about that, even though other people had to adjust their lives and their livelihoods in response to that development. It's only when the developments affect us as individuals that we

then say, well, this is terrible. We need special legislation to help us. But if we did that in all these other cases, we would have completely destroyed all economic progress.

All right, I don't want to dwell on this because there's so much else to talk about here. You've got—and I've covered this on the show before, but I feel like we can't cover this enough because it's everywhere. Everywhere when you look at critics of the market, they are obsessed with wealth and equality or income inequality, and you have the gall to have a chapter seven called "Wealth Inequality is Beautiful." What do you mean by that?

TAMNY: Wealth inequality is not just beautiful, it is staggeringly beautiful. Every day someone is getting rich means a day that my life as someone who is not wildly rich improves. Thanks to Jeff Bezos being worth over \$30 billion I have access to every book, movie, every kind of toothpaste, haircare product, you name it, at the click of a mouse. Thanks to Steve Jobs, I can watch TV on my phone. I can email on it. I can use the Internet on it. Thanks to Michael Dell, I can talk to you on a computer right now, a computer that years ago would have cost literally a million dollars. So great are the components in it today, I can get this computer for \$500. All wealth inequality signals is that the lifestyle gap is shrinking. The question is: would we prefer that these guys had been layabouts? Would we prefer that Dell, Steve Jobs, and Bezos had done nothing? Would life be better if they had done nothing? I think not.

WOODS: But what about other countries where there is less inequality and people seem to be getting along all right? What about these calculations where we find out the increasing ratio between the income of a CEO and the income of a janitor? Isn't this something to be alarmed about?

TAMNY: Oh, no, it's something to be very happy about. It means that CEOs—their impact is growing more and more. Steve Jobs died worth billions, but he was vastly underpaid. You look at Michael Eisner when he got to Disney, it was a dying \$2 billion company. By the time he left it, it was worth over \$60 billion. CEOs are paid a lot today precisely because their impact is so grand, and it's an impact that extends well into the workforce, and so you want more of it. It's in countries where there's not a lot of wealth inequality that you're not seeing a lot of innovation. We've got a lot of inequality in the U.S. precisely because we've got people constantly figuring out ways to turn obscure goods only enjoyed by the rich into goods that we can all enjoy, and let's face it: that's what the rich provide for us. When we see what they enjoy exclusively, all that tells us is what we're all going to get to enjoy if we let markets be free, and the way we get to it is increasing inequality. Let's have more of it. I am dying to have my own private jet.

WOODS: John, tell me the relationship between taxes and arguments about taxes and the Rolling Stones.

TAMNY: As you and I know, taxes are just a price. They are a penalty placed on work. Let's call a tax what it is. And what's interesting about the Rolling Stones is in the 1970s it's hard for people to imagine, but the top tax rate paid by bands like the Rolling Stones and rich people in England

was 83%. If you made an investment in England in the 1970s, and you had a capital gain on it, you paid 98% of that gain to the government. So as Keith Richards pointed out, he said, we were basically told in the 1970s that we had to leave. And so what did they do? They created *Exile on Main Street*, one of their best albums ever, in France. And then they finished this album up in Los Angeles. Okay, so what do we learn from this? That the rich, you can raise their taxes, but you're going to get 83% of nothing. They will go to where their work is not penalized. What happens, and what I constantly argue is, when you raise taxes on the rich, you invariably hurt those who are not rich—the poor and the middle class—because let's face it: the sound engineers, the producers, the people who are going to help in the production of *Exile on Main Street*, could not move to the south of France. They could not move to Los Angeles. The same with the movie business. The movie business is known for being left-wing and for higher taxes, but look at where movies are made in the United States. They all acknowledge they go to where taxes on making a movie are the least. Ben Affleck can make a movie anywhere, but those who have grown up making money—middle-class types in the movie business helping to create a film in California—they can't move with them. So what do high taxes do? The rich get around them, and they hit the poor and middle class.

WOODS: I want you to tell listeners what you said to me before we started recording about energy independence. How did you describe energy independence and that particular cause?

TAMNY: It's an economy-wrecking waste. I can't think of anything more silly and anti-economic growth than trying to be independent in something. We import shoes from Italy. We import televisions from Japan and bananas from Guatemala. Our dependence on them is not a signal of economic weakness. It's a symbol of great strength whereby we leave to others what they do best so that we have time to focus on what we do best.

WOODS: On the other hand, people could say: bananas we could live without. Bananas are of no strategic significance. But if we were cut off from foreign oil sources, it would be difficult. Now, of course, not all of our oil comes from the Middle East; a relatively small percentage of it comes from the Middle East, which is where there is a lot of instability and where there is a desire to get control of a lot of oil. But what would you say? Is that part of your answer if I were to have raised that objection?

TAMNY: My answer to that would be that every oil-producing nation in the world could be at war with us and also embargoing us, yet, we would still consume their oil as though it bubbled up in west Texas. The reality is that you cannot account for the final destination of any good. Oil is going to flow no matter what because there is a market price for it. There are dollars around the world willing to buy that oil, and so even with what I argue in the case of Israel in the book, I say the possibility that you could be energy independent is a dangerous one. They should leave that oil in the ground if it in fact exists in Israel, and they should continue to import it because it's always going to reach them at a market price and because it does, it leaves the Israelis time to be some of the greatest technological, higher-margin innovators on Earth. It's basic free trade.

WOODS: I want to make sure we get to your discussion of regulation because of the analogy that you use in explaining why government regulation so often fails.

TAMNY: Well, let's be even more blunt there. Government regulation always fails. If in fact it succeeds, it succeeds by accident or it's a fluke. I base this on the University of Michigan Wolverines, their loss in 2007 to Appalachian State in football. Michigan was ranked in the top five. At the time Appalachian State was, of course, unranked. It was viewed as one of the biggest upsets, if not the biggest upset, in all of college football history. And I used that as a metaphor for the absurdity—for the fatal conceit, if I can use an Austrian term—of regulation. Regulation is the process whereby we presume that the mediocre can oversee successfully the successful. In the case of banking, you're asking for those who couldn't get jobs in banking to oversee those who could.

Now, back to the football analogy. Most of the players at Appalachian State were not recruited by Michigan. They could never get a football scholarship to Michigan. And so that's what's so shocking about the one time by some major fluke that they won. Well, that's what we're hoping with regulation every time that we're asking those who are the equivalent of the Appalachian State player, but probably even less talented, to oversee successfully the kind of guys who got scholarships to Michigan and Alabama. It's never going to work because of the talent mismatch.

WOODS: But wouldn't that just be an argument for raising the salaries of the regulators to attract better quality people?

TAMNY: You never could raise them enough to a level that would make it work. Let's face it: if in fact you could raise the salaries enough to get actual good regulators, the actual economy would be so weak that you wouldn't even need them. There wouldn't be banks to regulate. The reality is, anyone who is talented is always going to want to be in the industry, not regulating it. So you're asking, again, those who wanted to get a job in pharmaceuticals or banking or any sort of business or technology—you're asking those who couldn't to regulate those who could, and by definition it cannot work. What staggers me is all the economic growth and productivity we lose as the talented spend time currying favor with those who couldn't work with them on their best day.

WOODS: All right, we've come now to the portion of the program in which we have to discuss *Downton Abbey* so that I am not locked out of my house. My wife loves this program, and I think we watched the first episode together. We just haven't had the time to fit it in. I am more than happy to continue watching, but she is the one who has seen all the episodes. So what is the connection between that show and any of your points?

TAMNY: Well, one of the main points I make in the book, and this is obviously the connection to it, is that in *Downton Abbey*—not in this past season, but the one before—they face an estate tax problem basically with the death of the family, and I don't want to give away the plot for those who haven't seen it, including you. They are potentially going to be forced to sell off

parts of the estate to essentially pay the estate tax that the Inland Revenue Service wants to get. So I make the point there of what a tragedy is the estate tax in general in that ultimately get around paying it, but all the waste—all the time wasted hiring estate lawyers and helping people to get around the tax—all those resources could have been directed toward adding to the property, developing other parts of the property, developing houses on the property, giving someone a chance to grow food on the property. Instead, they consumed those resources on ways to protect the estate in the first place.

The bigger question I ask here is, think about it: if the Crawleys of *Downton Abbey* or if it's Paris Hilton or if it's Bono of U2 or if it's Jeff Bezos, if they are not spending their money, if they are hoarding it as the Left dislike, it's not as thought that money is disappearing. In fact, that wealth is being redistributed the way that Barack Obama wants to. When you are allowed to hold on to your money, it's not as though banks just stare lovingly at it. The banks immediately lend it out to others, or you invest it in a brokerage account, and it's invested in the companies of the future. So if you want to redistribute wealth, the only way to do it is to let the rich hold on to it. And that's the broad point of it. Let the Crawleys hold onto their wealth, and if so, everyone else will get to enjoy it by borrowing it or being investors.

WOODS: John, normally on my episodes we have more of a conversation rather than jumping from one topic to another, but because your book covers so many topics, and I want to fit so many of them in, I just can't help myself. I guess I want to close with a question on free trade, because this is an area where libertarians generally believe in it, but again, the general public is another matter. They are not entirely sure how they feel about it. Republicans and Democrats alike are not really sure how they feel about it, and it's because they believe that although they understand that it can be beneficial to exchange with—to get products from other countries—they want it to be fair trade. They want there to be some kind of level playing field, and they will always give you the example of China, and they will say, in China, they are using slave labor. They are using child labor. You can't expect American workers to compete with that. And they will also say that firms that are setting up shop in China are simply predatory, taking advantage of and exploiting those people when they could very, very easily pay them higher wages. So how do you sort all of that out?

TAMNY: Oh, gosh, the way I sort it out is that every day that the Chinese get up and go to work is a day that Americans get a raise. There is so many ways to address this, but let's take it back to first economic principles. Let's take it back to Hazlitt: what is good for the individual is good for the economy. I want to meet the person who is made worse off when they can buy shoes more cheaply, when they can buy clothes more cheaply, when they can buy computers more cheaply. None could say with a straight face that that's, in fact, true. So are we made better off by Chinese exports? Of course we are, by definition. Life wasn't as grand without the Chinese producing with the global economy as they had done. People like to bring up, of course, the low wage argument, that they are stealing jobs from the United States. Well, nothing could be further from the truth. If you want to break it down to kind of a Keynesian stat, labor force

participation has increased over the last 40 years as the Chinese have embraced capitalism. And I think the greater point here is in fact it were true that the Chinese were stealing our jobs, then we would see this in investment, but in fact, what creates jobs? It's investment. We know that there are no companies and no jobs without investment first. I don't care if you're a Paul Krugman liberal or an Austrian Misesian.

We all know what creates jobs and companies. Okay, well, so where does most investment in the world go? Particularly venture capital investment goes to New York, Boston, and most of all, San Francisco. We are talking about three high-wage cities. If in fact the Chinese were stealing investment and jobs, those three cities would be depopulated. But instead, what we find is that as China rises, America's economic prospects increase because they make low-value goods that if we made would impoverish us, and it gives us time to create some of the most valuable companies in the world. And let me just add—I realize this is a long-winded answer. It's not just the creation of jobs at Apple and Intel. Many would say, including me, I don't rate a job at those places, but the reality is when those companies rise up, the jobs created around them are vast. Yoga instructors, personal trainers, baristas, lawyers, investment bankers—the list is long of the jobs created by the rise of these successful companies that outsource a lot of their manufacturing overseas.

WOODS: John, you are editor at RealClearMarkets.com, and as you know, people get into a routine on the Internet. They have a certain number of websites they visit, and it seems to be the case that if you're going to introduce them to a new one, for them to make that part of their regular routine they have to drop one of their previous ones. So how do you persuade people they should drop one of the sites they are visiting and visit RealClearMarkets regularly instead?

TAMNY: Because my persuasion is this: I can save you from having to visit several sites a day by virtue of your coming to RealClearMarkets. I am going to bring together important commentary from websites not just in the U.S., but around the world, and that will save you from having to look at all of it. Are you going to agree with all the commentary? Certainly not. I don't. I am a libertarian. I think a lot of economic commentary is tragic, even from the right side, left side, it doesn't matter to me, but at least if you come to RealClearMarkets, you know what's out there, and then you can decide where to go. I am doing the work for you. Essentially, you can outsource your web search each day to me. (laughs)

WOODS: Well, we're going to link to RealClearMarkets, of course, on the show notes page tomwoods.com/379. We'll also link to the book, of course, *Popular Economics*, which I urge people to check out, and I hope we can talk to you again sometime because you seem to be able to take on a lot of these common objections in a way that, well, the average person can understand. We certainly do need that in this movement.

TAMNY: Oh, I would love to come back on. I am a big fan of yours and your books. I wish I could get more of your commentary so I could run it at RealClearMarkets. So keep me in mind.

WOODS: I appreciate that. I wish I had time to write anything these days, but someday, someday that glorious moment will arrive once again. John, thanks again for your time.

TAMNY: Thanks, Tom.