



Episode 1,131: Debate Episode: Trump's Tariffs, Pro and Con

Guest: Gene Epstein and Dan McCarthy

WOODS: All right, gentlemen, let's get started. We're going to have a statement from each of you to start. Then you'll each have an opportunity to respond to that statement. Then we've got some questions, and then we'll wrap things up. So given that Dan is I would say arguing in the affirmative given the nature of the subject matter, we will start with Dan. So Dan, the floor is yours.

MCCARTHY: Okay, well, today we are talking about tariffs and economic nationalism, which has proved to be a highly controversial new initiative that President Trump is undertaking — controversial despite the fact that he campaigned very clearly on these issues and these themes back in 2016. And it took him about a year to address these issues, but now he's doing so. He has announced new tariffs on steel and aluminum, and there's a lot of talk a trade war, which has a great deal of the press very excited. You're seeing rather panicky headlines all over, whether it's *The Washington Post*, *New York Times*, *Wall Street Journal*, certainly, all over the place.

My remarks today are not really going to talk about the tariffs themselves all that much, but rather the theory behind them and the overall vision of economic nationalism, of which the tariffs are meant to be a fulfillment. The economic nationalists tend to look at all of these questions as being prudential, all of them as being in some degree trial and error, and therefore, it's very hard to say in the abstract whether a particular measure, like a tariff on steel or aluminum, is necessarily going to produce the results you want. And if it doesn't, then you change your policy. So it's a very pragmatic and practical approach as opposed to a dogmatic one, which says that free trade is always and everywhere the best approach.

So as a result, I don't want to talk so much about the particulars. I want to talk more about the general theory and why economic nationalism is somewhat different from the idea of simply applying economic theory in an undiluted way to economic policy and government. Well, there are really two angles to economic nationalism that are worth bringing out here.

The first one and the one that actually serves as the official justification for President tariff's tariffs is national security. For a variety of reasons, the trade agreement that he United States is already a part of prohibit various kinds of industrial policy purely for economic motives. They insist that we have some leeway in national security that we don't have in other respects. But the national security argument is in fact a very powerful and legitimate one, so it's one that I think any economic nationalist is very happy to defend.

Basically, if you look at the major conflicts of the last 150 years — I mean the really big ones, the serious ones that are actually existential, such as the Civil War and certainly the two World Wars were existential for Europe — you'll see that industrial power plays a decisive role there, and the fact that the United States had an industrial base that was partly commercial but also partly sort of a product of industrial policy in the 19th century and early 20th century gave the United States a tremendous edge against its opponents.

One of the reasons that the North Defeated the South in the Civil War was because the North simply had more industrial power. It could create more guns, it could create more railway tracks, it could create all sorts of things which the South had difficulty manufacturing. If you look at the two World Wars, it's very much the same. The fact that the United States had a tremendous amount of industry that could very readily be converted to military purposes made the U.S. an invaluable backstop to powers like Great Britain and really made it possible for the U.S. to take on what was then in both wars one of the most impressively rising powers industrially speaking in the world, which was Germany. Japan as well. Japan had industrialized very effectively and was a tremendous due power in World War II.

When it comes to industrial policy, we're not talking about just one sector. We're not just talking about steel or aluminum or metals in general. All of the industrial base is interlocking, so if you have a strong steel industry, if you have a steel industry that is not just kind of at a minimum or not just being effective in production now, but actually is perhaps larger than you even need economically speaking, it's going to be very useful if you ever get into another one of these large conflicts. The steel industry becomes invaluable for things like ship building, for example. It becomes invaluable for the production of tanks, for the production of any number of munitions and technological devices that will be very useful in wartime. So you want to have a robust industrial base that is well supplied and that is really capable of taking up — that has enough slack in the system, so to speak, and that's able to snap into high gear when necessary.

Now, the wars we're fighting right now don't require anything like that. The wars we're fighting right now are unnecessary. They are relatively minor in terms of the demands they make of the industrial base. But the point is to be prepared, and one of the things that China is strategically doing right now by overproducing steel and dumping it on the market is China is deliberately trying to basically wreck the industrial base of its rivals, including of course the United States. And basically China is hoping that you get a shrinking industrial base, a shrinking steel industry, shrinking other industries in the United States so that if ever a conflict does come, China is the one that has the upper hand.

Now, we haven't been in a large-scale conflict since the middle of the 19th century, since before then in fact, when the U.S. was at a disadvantage and when we were fighting a power that actually had greater economic or greater industrial output than we had. So we would be in uncharted terrain if we let China become a stronger industrial power than we are. So that's sort of an overview of the national security argument for industrial policy and for things like tariffs in particular.

Now, there's also an internal political argument as well, and it's also a security-based argument, that if you don't have a certain strong middle class and the industries like steel industries that are fairly sort of traditional and heavy and sort of mid-20th century tend to produce a nice sort of connecting layer in the economy between the rather low-paying jobs that you find in much of the service sector, in cashiers and hotels and so forth, and the very

well-paying jobs that you find in the creative industries and finance and also in farming, by the way. That may come up later, but I should note that farmers tend to be quite well-to-do in today's world. And industrial base provides this connective tissue. It provides a middle which has a moderating effect on the nation's politics, or at least it can do in the right circumstances.

And that's important, because you find that if you don't have this middle, if you just have the rich and the poor. you have a nation which very easily succumbs to more radical economic appeals, and I think you actually saw this in 2016. You saw this in the fact that both Bernie Sanders and Donald Trump wanted to make a very strong appeal to people who felt like the globalized economy had left them behind, and as a result, both of those candidates became insurgents within their own parties. Ironically enough, then, if you have a strong industrial base, you might actually not get candidates like Trump or Sanders, or you might get candidates who are like them but somewhat more moderate in some respects.

It's often said that we don't really need to have a middle class, that in fact, if we simply had growth of the wealthier classes, that would be better. If you can take 10% of the middle class and move them into the upper class, isn't that a clear improvement? Well, in most respects it is. But actually, if you look at the last 15 years, you don't see such clear improvements. You actually see that you've had about a 2% decline — well, about a 4% decline in the middle class, which is translated into a 2% growth in the higher earning classes and a 2% growth in the lower classes. And that's kind of dangerous. Again, you're losing that middle ground that serves as a moderating influence.

The other thing too is that it has to be kept in mind that the growth of supposedly beyond middle class earners has to be contextualized in terms of where these people actually live and the demands that are made upon them. So if you have a household income of \$100,000 and you actually live in one of the cities that are in fact the major sort of growing parts of the U.S. economy right now, you'll find that that is very minimally a middle class income, that in fact the expenses for housing, the expenses for education, for child care, for any number of other things make the accouterments of middle class existence rather difficult to maintain at levels that are in fact easily twice what the federal government considers to be the middle class definition. So having an industrial base is a way to make sure that we're not leaving behind other parts of the country, and it's a way to make sure that we have sort of good, solid employment that keeps people relatively satisfied in what's now called the Rust Belt and what's now called in many cases Trump Country.

That I think gives you the overview of two of the sort of key strategic and political considerations when it comes to tariffs and when it comes to industrial policy, and I'll be very interested to see not only — not only to hear, rather, what Gene has to say in terms of an economic case against this, which I think most people perhaps may be familiar with, but if there are also sort of political dimensions that he would pull out and say are in fact being overlooked by the economic nationalist case.

WOODS: All right, Dan, thank you very much for that statement. Now I'll turn things over to Gene Epstein. Gene, you have five to ten minutes, but again, we're on the honor system here. No clock is ticking, but if you hear me tapping something or groaning, you'll know to wrap it up. All right, here we go, Gene.

EPSTEIN: I did time Dan at about nine minutes, so let me try to take that amount of time. Let me just start with the specifics. Dan sort of finessing the issue of steel and aluminum tariffs, but I do think that we should focus on them at least for a moment to understand that he wrote an essay that's prompted by Trump's initiatives, and those specific initiatives are clearly not at all going to achieve the results that Dan is after.

Again, Dan should be aware of the fact that the steel tariff will put a squeeze on other industries that consume steel, that while it will protect 140,000 jobs in steel, there are about 2 million jobs in domestic industries that use steel intensively, including manufacturers of auto parts, motorcycles, domestic manufacturers of wholesale appliances, farm machinery, and machinery used in mining and oil extraction. And we know, for example, that research on the effect of George W. Bush's steel tariffs certainly concluded that manufacturing jobs were lost on net. The same logic applies to the aluminum tariffs, so again, if he wants to protect manufacturing jobs, this is a Trump-like, pretty hell of a way to do it, and it highlights the fact that we libertarians and hopefully conservatives like Dan are a little mistrustful of giving our government carte blanche to enact Dan's ideas, because what moves them, if we use public choice theory, is clearly often just a lot of other motivations that have nothing to do with the real objectives. SO this is self-defeating.

Apart from that, with respect to Dan's other idea of being ready for a five-year global conflict — which of course scares me to death. I'll take that idea in a moment — it's also a bit ridiculous. Defense Secretary Jim Mattis stated that the U.S. military requirements for steel and aluminum each only represent about 3% of U.S. domestic production, so therefore, Mattis continued, DOD does not believe that the findings in the Commerce Department reports impact the ability of DOD programs to acquire the steel and aluminum necessary to meet national defense needs." Now, let's take that 3% and multiply it by 10 to reflect the needs of this five-year global war or more than that. That's just 30% of domestic production.

Then bear in mind that all the major sources of imports of steel and aluminum consist of countries that would presumably be our allies in this global war. Canada counts for more aluminum imports than the next 11 biggest sources. Presumably, Canada will remain our ally in that global war. Canada, Brazil, and South Korea are our main sources of steel. The other seven are Mexico, Turkey, Japan, Taiwan, Germany, India, and Russia. I assume that only Russia would be on the other side of the global war that Dan envisions, and maybe Taiwan if it's taken over by China. But the other countries would be our allies. Presumably, we don't want to weaken our allies. Presumably, we do want to maintain global allies, and so I think we have little to fear.

But now let's get to Dan's idea of middle-income households that we need to protect jobs in manufacturing for. I mean, Dan presumably knows that private sector employment — that doesn't include government — manufacturing jobs now account for 10% of the total. That figure declined every year since the early 1950s. It was 37%. It declined to 20%. It's down to 10%. Now, I happen to think that's a good thing. It was mainly a result of increased productivity, but does Dan really imagine that 10% of just private-sector jobs, and that's about 7% of all jobs, is really some kind of glue that helps keep middle-income households together? Well, in face, Census Bureau data show that the middle income is doing pretty well. I won't challenge Dan's 2% fluctuation in terms of the distribution of income; I would only suggest to him that if it's going to be anything larger than 2%, the manufacturing variable is not going to affect that.

But more importantly, Dan should presumably know that service jobs pay about as well as manufacturing jobs and that jobs in construction — there's 7 million jobs in construction that pay better than manufacturing jobs. There's 6 million jobs in the household sector that pay better than manufacturing jobs. There are nearly a million in mining and gas extraction, which is on the rise due to the revolution in oil extraction from shale that pay better than manufacturing. More broadly, most of the 47 million people who are in management positions or in professional occupations are in the non-manufacturing part of the private sector, and all of them earn middle-class incomes or better. So again, Dan is focusing on some kind of fetish, which we can deal with more broadly, about the idea that manufacturing jobs are the glue.

But more broadly, aside from Dan's 2% fluctuations, Census Bureau data show that in 2016, 42.4% of U.S. households received annual income between 35,000 and 99,000, and another 27% had incomes of 100,000 or greater. We have 64% of U.S. households who own their own homes, a decent marker of being in the middle class or higher.

Now, Dan wrote in the article that he's got a vision of a tiny capital-controlling elite and a vast population of Amazon warehouse workers who consist of our economy, and that's simply a fantasy. In fact, another thing that Dan might not be aware of: our service sector is a vast exporter, net exporter. Our net exports of services, which include films, which include travel because more foreigners come here than go abroad, which include all kinds of professional services that, by the way, we have a net surplus with China — that's a vast industry that supports our balance of trade abroad.

Now, let me broadly deal with Dan's idea that we want to be prepared for a war that would be similar to the wars during World War II or during the Civil War. I trust that Dan, who by the way happily talked about the unnecessary wars we are currently facing, is willing at least to recognize that the kind of global war that he's envisioning running five years in the nuclear age conjures up Einstein's famous quip. When asked with what weapons will we fight World War III, Einstein responded, "I'm not sure with what weapons we will fight World War III, but it can be certain that World War IV will be fought with stones and clubs."

I believe that Dan really thinks that our military is a net threat to the world, makes the world more dangerous, provokes China. And the kind of military we want is the kind of military that can protect our borders against our attack. We want to put "defense" back into the Defense Department, and that requires a much smaller military industrial complex, which by the way, has arisen since World War II. That requires a shrinkage in our industrial base that supports our military. And then when we get down to that shrinkage that will defend our borders and when we get, by the way, to a sane world, in which we rid the world of nuclear weapons, then Dan and I can talk about protecting an industrial base that can fight a war. But that's the kind of war I trust that Dan as a conservative wants to fight. I trust he does not want to fight another global war similar to the war we fought during World War II.

WOODS: All right, thank you, Gene. Now, Dan, I'll give you a few minutes to respond to what Gene just said.

MCCARTHY: Well, I mean, I think Gene is basing his views on extractions, both theoretical ones and also statistical ones that don't necessarily give an accurate, granular impression of how things are working in the United States. So you talk about service jobs paying equally well. Well, in fact, in Granite City, Illinois, they're not. They're hurting because they've shut

down steel mills. You can look at any number of other steel towns across the country, and you'll see the same thing.

Now, you know, in one sense, economic nationalism is actually economic federalism, because it's about recognizing the different needs of different components of the country and providing support for them in terms of the things that are vital to their existence. Otherwise, these towns will dry up and blow away, and there are certainly people who wish to see that. There's a fellow by the name of Kevin Williamson, for example, who's been in the news recently who really does think that some of these industrial towns just need to die off. But in politics, people fight for survival. They don't want to see their towns, they don't want to see their communities destroyed, and if global economic abstractions are the things that are going to destroy their economy, their communities, they will react against that. And this again speaks to the political point that I made earlier, that you will in fact have more and more powerful political backlashes as you deindustrialize the country and as you strip parts of it quite bare.

In terms of the military question, this whole point of Mattis talking about 3%, he's talking about the way [inaudible] right now. If you were to engage in, God forbid, a much larger war some time in the next 15 or 20 years, you would find it very useful to have a large industrial base that could be much more productive and that had much more sort of give within it so that it was prepared for any exigency. So that's a long-term, strategic, speculative point. In terms of the next war being on the sort of model of the Civil War or the First or Second World Wars, no, it'll be quite different. But on the other hand, you can't really predict how it will be different, and you can say that in these past large-scale conflicts, U.S. industrial power has always been a decisive factor. And so you might think there's a pretty good chance that it'll be decisive in the future as well. Obviously perhaps not if we're talking about purely nuclear war, but that's not necessarily the only kind of scenario that could emerge. So again, I think caution and sort of strategic prudence requires having a strong industrial base right here in this country.

There are a variety of other points here regarding many of these specifics. If you want to talk about, for example, some of the other effects of the tariffs and the sort of spillovers they can have, you'll see that one of the things that's happening right now is that Trump is using these things as negotiating leverage, and he's getting some pretty good results, or at least he's opening some doors that would lead to some improvements that I think even Gene would be very happy to see. So for example, the fact that European states may be subject to these tariffs is causing them to have to think about really ponying up for their own defense, which is something that libertarians and realist conservatives have been pushing our European allies to do for some time. They've been free riders upon America's own defense expenditures, which are in fact defense for them much more than defense for us in many cases. But now because we have some leverage, we're actually having this discussion.

Similarly, you see that South Korea is now in negotiations to get out of having to pay the tariffs by opening up their automobile markets. This would in fact be a great improvement for the cause of free trade in general within the world, and it's something that's being made possible because we're using the threat of closing an element of free trade with the tariffs to actually open up a different part of it with South Korean automobile markets. So you could wind up in fact through the threat of tariffs and through even their short-term application with having a much more open market in general.

So all of these things I think have to be considered, again, as prudential moves, and both the security element and the middle-class element, Gene talks about how the service sector provides a lot of jobs. Well, certainly it does. It's the largest sector. But you know, then he mentions things like films. I don't think the film industry is going to be a kind of major employer of Americans in the 21st century, Perhaps Gene has a more optimistic, sort of creative libertarian vision of that, but I tend to doubt it. I actually think that things like YouTube are tending to sort of break down the film industry, and in fact, it's becoming sort of so cheap and easy to do that it's unclear whether you really need an industry. And in fact, you're also seeing the rise of foreign markets in film that are also changing things in very dramatic ways, so we can talk about individual industries like that and I would just express a certain degree of skepticism.

I would say it's not the case that the industrial economy is by itself synonymous with the middle class. As Gene's pointed out, it's only a component. But it's a component that we should have more of rather than less of.

WOODS: All right, Dan, thank you very much for that. Gene, it is now your turn to say some things back to Dan.

EPSTEIN: Well, let me try to take it from the beginning of what Dan said, because I'm trying not to talk about abstractions; I'm trying to talk about actual jobs. Dan seems to have conceded that we still have a very strong, very substantial middle class. The numbers stare at you any way you measure a concentration of income at the middle, which is like a bell curve, and of course it's a little — We have a lot of those people, and we have them despite the fact that only 10% of private sector jobs, about 7% of all jobs are manufacturing. And Dan, however, now seems to be talking about those industrial towns that have shut down, and that's indeed unfortunate, but the question I would ask Dan is: does that mean you're against what is known as creative destruction, to use the term that Joseph Schumpeter used.

Now, Rochester used to be a town that was based upon the Kodak company. The Kodak company was devastated by the new technology in film, in photography, and Rochester is not the town that it used to be. Would Dan reverse that? It used to be an enormous profession called blacksmiths. The automobile industry basically shut that profession down. Secretaries, by the way, the number of secretaries has been decimated by mechanization in the office. The number of bank tellers, Obama was in vain against automatic tellers, ATMs, because that's been decimated. The U.S. economy destroys 1.5 million jobs a year, and that's what is known as creative destruction — 1.5 million jobs per month, I'm sorry. Got the figure wrong. I'm trying to be concrete.

Also, by the way, when I mentioned services, I did mention film. All I'm saying is that services in general are a very vibrant export of the U.S. It's not just movies that we export; it's also architectural services, engineering services, legal services, investment services. That's relatively high-end, pulls in a lot of money, however, and by the way is part of the reason we have more inequality of income, because skilled people are making so much money exporting their services abroad. And so I wonder where Dan is coming from if he's going to say that we've got to protect the handful of industrial towns that have been hurt. I come from grandparents who left Russia and Eastern Europe to move to a better country.

What we need to do, by the way, if Dan wants to focus on what we really have to do to address economic problems that Dan and I will probably recognize are pretty pervasive is that

in particular we ought to roll back the rise of restrictive licensure that makes it more and more difficult for people to move into different service jobs. We ought to roll back zoning restrictions that make housing so expensive in areas of the country like New York City and San Francisco where jobs can be available for people who want to get on a bus and move. And that's what we need to do. But Dan hopefully does not want to roll back creative destruction, which does indeed at times mean that certain towns are not doing as well as they used to, Rochester being a clear example.

Now, in terms of foreign policy, I trust Dan is at least a bit concerned about furthering and supporting U.S. preparedness for war, because those warriors I think Dan agrees are a pretty dangerous group of people. We are basically provoking conflict in the war. If Dan, by the way, is concerned about a war with China, then we ought to also address another problem independent, of which Trump is worsening, which is our huge national debt. More than a trillion dollars — in fact, one and a half trillion dollars, about 25-35% of it is owned by the Chinese; hence, the standard quip: if we ever do have a war with China, we'll have to do it on money we borrow from the Chinese. And so all of those are the real problems we need to address.

The idea that we need to be prepared for a four- to five-year global conflict again scares me that Dan believes it. We need to roll back our military so that we are only defending our borders. Why? Because at least since World War II — that's a 70-year period — our military as done more harm than good, both to us domestically and in the world.

Now, finally, when Dan talks about how I might perversely want to support Donald Trump in bringing about freer trade, well, of course I do, although I can't quite trust Mr. Trump in this regard. By the way, I don't believe that Trump has been a complete horror show, but it's very difficult to imagine that his real game plan is to bring about freer trade in the world. But if Dan is all for freer trade in the world — by the way, freer trade in the world does to some degree, at least, enhance ties between countries and enhance world peace — then I support Dan in that objective as well. But we certainly do not want our government to have an industrial base that's prepared for war.

One final point: that 3%, I multiplied it by 10, Dan. I said 30% of our domestic production for steel. Now, I made that figure up because that's not exactly what I want to say, but that's 30%. We only spend 3% currently. Let's make it 30. Let's make it 40. I also added that we have all these allies in the world who export to us, export steel and aluminum to us, especially Canada, especially Brazil, countries that we want to keep as allies. So again, all of these views are very dangerous.

I support, by the way, a great national economy, but Dan is having us march in the wrong direction in terms of strengthening that national economy by supporting any kind of tariff.

WOODS: All right, thank you, Gene. Now, Dan, we go to you, and you have an opportunity now to ask Gene anything you like.

MCCARTHY: All right, well, I think Gene has a very well-developed worldview. It's very well informed by statistical information and by a careful sort of perspective on history, which I would quibble with in some respects, but I think that there's no point in simply clashing on first principles here. Instead, what I would ask Gene is something that I haven't heard him

address that was a significant part of my discussion, which is: what if creative destruction has political consequences?

What if you find that you are in fact, as the steel mills close down in various cities across the country, that maybe two or three things happen: first of all, that an out-of-work or an underemployed or a downwardly mobile constituency is created, which then begins to have an effect on the political movements that are successful in this country, and you have a rise of demands for socialism or a rise in demands for sorts of economic nationalism that may go much farther than what Donald Trump has so far proposed? Do you see that creative destruction can have some political effects which are destructive but not creative?

EPSTEIN: Well, I have to say that if the solution is to oppose creative destruction, then socialism will become inevitable, because the only way the poor people of this country have ever gotten anywhere is through creative destruction, because creative destruction is really just technological innovation. And one of the key lessons of economics is that you don't make it on investment; you make it on innovation. And the innovation of the last century — electricity, now nuclear power, which I believe should be on the ascendency and that will destroy the coal industry — all of those things are essential. And so if we are going to oppose creative destruction, then socialism will become even more inevitable.

But to address the specific problems that arise when people lose their jobs, I want Dan to join me to speak out against zoning restrictions that make it so expensive for people to move. I want Dan to join me to speak out about the rise of disability payments that immobilize people, that prevent them from moving because they have no incentive to get better jobs. I want Dan to join me to speak out against occupational licensure, which creates walls for people. I want Dan, by the way, to join me in speaking about unions, which are still dominant in much of the manufacturing sector, which make it more difficult for people to get those better jobs. And so that's what we need to do when creative destruction causes turmoil in people's lives, as it inevitably always will.

And by the way, to some degree it's caused enormous turmoil, by the way, in the lives of computer programmers, because it's become more and more difficult for computer programmers to compete with computer programmers in Bangalore, India. And so for Dan to oppose creative destruction in the name of politics is for him to roll back the clock and give up on the hope that market economies can continue to lift the living standards of the broad masses of people. What we need to do is understand how the warped, government-dominated, crony capitalist system is making it harder for people who live in those towns to move to find other jobs.

WOODS: Gene, thank you very much for that. It is now your turn to ask Dan a question.

EPSTEIN: Well, first principles I think really are important. I should emphasize — I don't know if the audience knows this, but that I know you personally. I have deep admiration for you. I've learned things in the past from you. I'm sure I will learn things in the future from you. And as a conservative and someone I respect as a conservative, I think you are an expert in first principles. So I want to appeal to your expertise and ask you this: don't you think — I guess a two-part, loaded question, if you'll forgive me, Dan. Don't you think that allowing the government to pursue policies that relate to preparedness for war is a dangerous route? And on a related question, don't you agree with Ivan Eland of the Independent Institute who, for example, wrote a book called *Putting Defense Back in U.S. Defense Policies* — don't you

believe that the primary objective of our defense should be to defend our borders against attack, and beyond that, to think in terms of our armies going abroad, don't you think that's a dangerous course?

MCCARTHY: Thank you, Gene. Well, those two questions intersect very nicely, so I'll give some comments that perhaps address both at the same time. I think one difference between my perspective and yours might be that it seems to me that states in general are dangerous and that the United States as a government, as a force in the world is not necessarily the most dangerous, that it seems to me great powers like the Soviet Union and Nazi Germany were much worse than the United States.

So while it's true that the United States having this extremely powerful military machine is a dangerous thing and it is often abused, I do not therefore believe that if we didn't have it that the world would be subject to less abuse necessarily. It seems to me that the Chinese or certainly in history the Soviets or the Nazis would have been far worse in pretty much every respect. So you have to compete. States and their strategic objectives can't be factored away. They can't be wished away.

Now, the ironic thing is, when you talk about a defense machine that would only protect our own borders, I think you could have that, but if you had that, you would also have to have I think a change in culture in the country and also a change in economic policy. You would have — world trade would then be subject to sort of the strong-arming or the extortion of whatever powers dominated the sea, and that could very well be China, in which case the United States couldn't take for granted some of the free trade and general trade benefits that we presently do. But if we decided to withdraw closer to our own borders economically and to produce more at home, we could then I think afford to have a military that simply defended our borders as well.

That would be — I don't want to call it sort of pure isolationism, but in a sense it would be. It would be rather different, however, from the kind of isolationism you might identify with a state like Bhutan, which is quite small. It would rather be an isolationism where both militarily and economically and also I think inevitably culturally you would have a country that was sort of taking care of itself and was not so connected to the rest of the world that it had to worry about settling crises and problems and generally getting involved with both economic and military and also cultural conflicts all around the place. Because that tends to be what you find, is that conflicts that may start out as economic wind up taking on a political dimension when other states, not just the United States, decide that they're going to start using their military forces to redress the balance. Certainly that is the history of colonialism. It's the history, however, of so much of the conflict that we've seen over the past 200 years.

WOODS: All right, it is my turn now to do the asking of questions, so I'll start by asking Dan a question. There are a number of things I could ask Dan, but this one in a way gets to the heart of the question. Is it really so clear that tariffs will on net benefit the American middle class taken as a whole?

And as I ask that, I want to give you an example, and this is taken from Walter Williams. Barack Obama during his 2012 State of the Union bragged that over a thousand Americans are working today because we stopped a surge in Chinese tires. He put trade restrictions on Chinese tires. Well, they did a study on this, and it turns out that Americans wound up paying

\$1.1 billion more for tires. So how did that work out? 1,200 jobs were saved, but the cost per job saved as at least \$900,000. Okay, well, maybe if the average annual salary of a tire worker is \$1 million, this was a good bet. But the average annual salary of a tire builder was about 40 grand. So the real question becomes: where did most of that \$1.1 billion go that Americans spent in higher tire purchases? Well, it basically went into the pockets of people at the corporate level, not the average American worker who saw maybe 5% of the gain.

So isn't there a possibility that tariffs are, as usual, just another way to redistribute wealth into the pockets of the politically powerful? So therefore, isn't there a concern that the tariff on net could wind up just being another expense that the average American has to bear?

MCCARTHY: That's absolutely a danger, and as I said at the beginning, I think economic nationalism has to be prudential and it has to be somewhat experimental. And it can very well be the case that, first of all, policies can backfire. Second of all, policies can be hijacked by interests that then turn them into a sort of purely piratical exercises. And of course, that's a danger with all government policy, not just those that are associated with economic nationalism.

So it's a real danger, and like I say, it's something that applies across the board with government interventions in the economy, but that's one reason why I think actually economic nationalism is not necessarily the sort of shocking departure from the natural order that many critics of the tariffs make it out to be, because in fact we don't have an actual order right now. We already have an economy that involves a great deal of government intervention. It involves some overt picking of winners and losers, but in general it just involves sort of structural changes, especially going all the way back up to the banking level and from there to the capital level, which really have a tremendous spillover effect.

So our economy, it's not simply that what we have now is a regime of freedom and that economic nationalism will be a departure from that in the direction of sort of government control; rather, what we have right now is also a system of government control, and it's a system of government control which is aimed I think at creating certain kinds of winners and losers. The winners in this system tend to be creatives. It tends to be people who work in certain kinds of service industries. It's really a system that makes the whole country comfortable and dependent upon the sort of financial structure we have and the sort of liberal political elite that we have.

And since I'm very critical of the liberal political elite that we have and have certain doubts, which I know are shared by Tom and I think Gene as well regarding the banking system, I therefore think that perhaps there's something to be said in supporting these sectors of the economy like industry that are unfashionable and that seem to have a sort of reactionary quality to them and that are not in fact so easily sort of managed by the kind of political as well as economic and banking elites that we presently have. It seems to me that that is a salutary case.

But that being said, all of this has to be done in a very wary way, and it's not the case that hard industry can't be overtaken and manipulated. I should say, by the way, because I think the people listen to things I've just said and they think, *Well, this is some sort of conspiracy theory. He's pointing darkly at some perhaps sub-segment of people.* It's not that at all. I mean, the thing I'm really concerned about is an ideology, fundamentally a sort of ideology of a kind of unfettered internationalism or transnationalism that doesn't really believe in

borders. What it believes in is kind of a technocratic elite of highly credentialed people who will make decisions for the rest of mankind and basically the rest of humanity is all sort of dependent upon the financial structures that the technocrats create for us.

That's what I think I want to oppose, and I don't think that's capitalism. That is nothing like capitalism. In fact, it's something that is really a form of chosen political economy that our political leaders and also sort of their allies in other sectors bring together. And you're quite right; I agree that there is a grave danger in adopting an industrial policy if the industrial policy gets coopted by the same forces that already have great sway in other sectors.

WOODS: All right, now it is my turn to ask Gene a question. Gene, you ready?

EPSTEIN: Yes.

WOODS: All right, here we go. My question is that: is it really just in people's imaginations that in the past at least several decades or maybe even just the past two decades, job security has become much more precarious and people have to work longer or they're working in less desirable conditions or they're fearful of offending their bosses because the job market is so precarious? And is there no reason to think it's plausible that this could have something to do with the fact that they are competing against people who earn wages that they couldn't possibly be able to compete with? And you can say that's because they're so much more productive than people in China, so they can afford to be paid the higher wage. Well, maybe. I don't know how persuasive that is.

But the question is: you just see it and hear it anecdotally all over the place about people finding the job market to be very difficult to navigate, young people getting out of college and not having the opportunities that people used to expect, and people have to have two earners working to make ends meet and all that. Is it plausible to say that this has nothing whatsoever to do with the experiment in free trade that occurred contemporaneously?

EPSTEIN: Thanks for the question, Tom. Let me try to emphasize the part of the analysis that is typically left out and which is totally non-elitist and start with an article I published. I actually freelanced for *Barron's* a couple of weeks ago, which I suggest you put on the show notes page, showing that for the first time in post-World War II history, over the last ten years there has been absolutely no increase in the cost of all goods purchased by consumers. In other words, the price index consists of goods and services, and as you guys know, the Federal Reserve is desperate to bring up the price of inflation, and the part of that price index that's not responding is all of the goods that people buy. It's been absolutely flat. Ten years ago, the average price of goods was the same as it is today, and meanwhile, nominal incomes have risen.

And why do I emphasize that? Because people of limited means buy more goods than they buy services, so that's especially benefitted people of limited means. Partly of course it's the Wal-Martization of the economy. We always look at the employment side, at the job side, but we don't recognize that cheaper goods have been greatly enhancing real incomes, and that coincides with the opening up of trade with China. So of course we can be nationalist about it, but if we are nationalist, let's at least cheer about that unprecedented benefit. Up until then, 10 years ago, 20 years ago, goods prices rose. Now they've been flat. So that's a huge benefit, and it's the reason why the average person, just across the board everyone in the

economy is living better than his or her counterparts did 20 years ago. There has been a noticeable increase in the standard of living across the board. So all of that progress has been made, and a lot of it is due to the opening up of trade.

And I would like to also digress and say that I'm not a nationalist. I do tend to be an internationalist. I applaud the fact that the poor Chinese worker has a job in a factory and is no longer starving on \$1-2 a day and is producing goods that are exported to the U.S. I think that – by the way, the global distribution of income, by the way, has narrowed. It's narrowed because of the opening up of trade, because the poor workers of the world have gotten jobs servicing the richer people.

And now of course, it is, I have to say, Tom, a little bit quixotic – our readers know the definition of that word – to talk about jobs not being available when all the indicators show that the job market is booming and the real question is whether we have enough people to take all the jobs today that are being offered. And that reason, by the way, I'll emphasize has a lot to do with business cycles, and that the problems that you're talking about, which, by the way, I to some degree acknowledge, have to do not with the rise in free trade but with the fact that we are still living in the after effects of the Great Recession brought about by government, the Great Recession of 2008-2009, and that they have a lot to do with other factors, especially the decline in the economic freedom index since the year 2000.

And so if we sort out those things, maybe, *maybe* there's something remaining, but then we have to deal with the fact that the vast amount of creative destruction that occurs does not have anything with global trade; it's internal, that jobs are lost from – For example, just to take the most egregious case, when Obama bailed out General Motors and Chrysler, what he did was he shafted the workers in the Southern Belt who were producing cars there. And so of course that was government's creative destruction, but that was indeed domestic. And so the 1.5 million jobs we lose every month are mainly due to domestic competition, domestic creative destruction.

So therefore, once we exhaust all of the good that's come from free trade – the good, I emphasize, that has been captured by ordinary people, ordinary, middle-class people who are buying those cheap goods, the good, by the way – of course I don't want to leave out Amazon. I don't want to leave out fracking, which has meant cheap oil domestically, all of that innovation that has benefitted people of limited means. Of course they spend more of their money on gasoline, more of their money on goods. Once we bear in mind the other problems – we addressed the decline in the economic freedom index, the difficulty in moving due to zoning, the rise in restrictive licensure. Once we address those problems, perhaps – or the Great Recession, which still has echo effects. Once we address all of those problems, maybe, *maybe* there's something about somewhat greater job insecurity for people, but I think it is an extremely minor factor.

WOODS: All right, I'm going to now give each of you no more than five minutes apiece to sum up where you stand, anything you might want to say, any loose ends you want to tie up. Dan, we'll start with you.

MCCARTHY: Okay. Well, Gene had mentioned Rochester as one of these post-industrial cities. My impression is that Rochester now depends on a lot of industries that are not necessarily purely free market. So I know that medicine, hospitals are very important within

Rochester. And this is a sector which, you know, it's vital to the nation of course, but also, it is one that is not entirely a free market entity.

In my op-ed that kind of kicked off this debate and created the opportunity for it, I talk about a place like Pittsburgh, which I know pretty well. Formerly a steel town. Now it's a very prosperous post-industrial city, which is wonderful, except that its prosperity depends on higher education and also the medical community, and those are the two largest sectors of employment. Those are causes for concern. If you have a country that increasingly is dependent on those sectors, what becomes of its sort of political culture? What becomes of its entrepreneurial culture? Does it start to become kind of socialized by default, so to speak? So there's a certain worrying development there that I want to contrast with the earlier industrial kind of economy, which, even though it had various kinds of relationships with government, even though it often was very much in bed with government, nevertheless had a certain sort of core capitalist component, which I'm not sure that medicine or education do.

We talked a lot about the service economy. There are a lot of things that worry me about the nature of the service economy, especially financialization, financial services. I'm very dubious about a lot of this stuff. We look at some of the technological industries. You know, is it really the case that Facebook, for example, is a much more valuable company than Boeing? I'm very doubtful of that. Facebook is something that a lot of people enjoy. It's something that does involve various kinds of research, but it's also just frivolous. It's a form of entertainment at the end of the day.

And it seems to me that, while other nations, those that have sort of long-range industrial policies, are thinking in terms of productive economies deep into the 21st century, we are not, and we are in fact perhaps somewhat prosperous right now and sort of seemingly enjoying a kind of Indian summer of our prosperity because we're consuming the capital that we have stored up, and what we're actually doing is destroying our ability to continue to create wealth by pouring it into things that in fact are just going to be taking care of old people, taking care of a dwindling number of children and sort of costing an extreme amount of money to do so. And in the meantime, we really have no industrial muscle left in the country.

Now, that's a bit of an exaggeration. Clearly, we do, as Gene has pointed out, we have technological advances that have made American industry actually very efficient, very productive. I simply say that we should have more of it and that there is something to be said in favor of having an industrial employment sector and not just having roboticization and sort of trading everything away.

I guess the last point would be, while it's very, very wonderful to see a rise in incomes in India and in China, we would not want to see a situation where Americans and Chinese simply trade places. And we might even think twice about a situation in which sort of the next \$10,000 of income for the Chinese middle class comes at the expense of \$10,000 or even \$7,000 of income for the American middle class. The Chinese have a government that is looking out for their well-being, simply because that government wants to make sure that it has stability, and it's worried that if it doesn't deliver prosperity, the people are going to revolt. I think our government needs to be just as conscious of the needs of our public as well, and it has to provide stability not just for sort of the statistical averages of everyone, but it actually has to provide a stability and a sense of hope, a sense of stable employment for all classes and all sectors and all regions of the country.

WOODS: All right, Dan, thank you very much for that. Gene, you will have the final word.

EPSTEIN: It saddens me to hear Dan McCarthy of all people saying that the Chinese government is looking out for its people. The Chinese government started to look after its people when in 1978 it started to get out of the way of its people. It instituted market liberalization policies that rolled itself back from its people. On balance, however, the Chinese government gets a very low rating in terms of economic freedom, even though happily it's risen from the basement. The fact that the Chinese economy has risen from the basement in terms of economic freedom is why the Chinese are doing so much better. However, there is far more economic freedom in the U.S. to this day, and in that sense, the U.S. government is looking out for its people, because I trust that Dan understands that the way we should all look out for ordinary people is by having more free markets, more capitalism, not less. That's how you look after people.

Now, with respect to Dan's mantra about health care or manufacturing, let me just try to be empirically based and not abstract. Dan might be surprised to learn that the manufacturing sector in 2017 was at an all-time peak in terms of output. An all-time peak in terms of output. He seems to be going back, however, to the old idea that really actually started with Adam Smith, a mixed bag in my opinion in terms of his economic message, who tended to disdain the service economy and thought that the only productive economy was manufacturing.

Well, at least let me assure Dan that we still do make things. The manufacturing sector is at an all-time peak, although mainly because it's gotten far more efficient. By the way, I think manufacturing is going the way of farming. That 10% of private sector workers in manufacturing, down from 37% 50 years ago, is probably likely to go lower. Manufacturing jobs did not used to be celebrated certainly by the left. Service jobs tend to be healthier, less dangerous, but I also want to assure Dan, as I mentioned, that there are 7 million jobs in construction. We still do make things. We still have an enormous farming sector, as Dan was suggesting. That's making things. In restaurants, we make things. When we produce creatively, we make things.

And then when Dan talks about the medical sector, I guess he's taking it for granted that the government should dominate medicine. Well, that's the reason why we have a disaster in the medical sector, and hopefully we are poised at a point where we can unravel government's role in the medical sector, because it's way too expensive. It can't run, it should not be running our medicine, and then we should turn it over to the free market. And then Dan would recognize that, while it's nice to have a new car, it's also good to have decent medical services to keep us healthy and keep us alive. So I'm not sure where he's coming from with respect to that, except I want to agree with him that the government should be shrunk. We have way too many people working in government, and the medical sector should be completely privatized. So all that would be to the good. And so I do want to, however, disabuse Dan in his thoughts that the Chinese government is looking after its people. No, it's not. It's only doing so by doing less, not by doing more.

But finally, with respect to Dan's vision of U.S. role in the world, let me remind Dan that if we had any kind of replay of the war we had with Germany in the early 1940s in the nuclear age, Hitler would have blown the world up. That's why Einstein made his point that global war is now unthinkable. And I don't know if Dan wants to put the nuclear genie back into the bottle. Maybe I think we should. But at least I guess if Dan accepts the fact that we're still living in a

nuclear age, we cannot have another repeat of that kind of war in the world, because that will mean an end to the world. As Einstein said, World War IV will be fought with stones and clubs. That's one of the reasons why we want to shrink the U.S. military role in the world.

And we want to shrink it, by the way, not because I necessarily want to run a contest about which country does more harm in the world, the U.S. or China. I believe the U.S. has always done more harm in the world ever since World War II. Just look at 2 million killed in Vietnam alone. Far more harm abroad than Russia and the Soviet Union ever did. And we've done Iraqi war far more harm than China ever did. However, if China is a threat to its neighbors, then I'm not saying there won't be wars, there won't be conflict. Then its neighbors – Vietnam, which has had a proud history of resisting the Chinese; Japan, which last I checked invaded China; Laos, Singapore – all those other pretty well-off countries should get together in a massive alliance and defend themselves against any incursions from the Chinese.

Finally, I'm not sure what Dan means when he talks about how if we defend our borders there will be no more free trade. The rest of the world, the Saudis will be eager to sell oil in the world. The Chinese will be eager to export. And the only policy with respect to free trade that we should ever pursue is a fairly simple one: no tariffs, no subsidies, no nothing. We let American citizens form their own contracts. If they don't want to buy anything from us, that's their problem. If they want to sell things to us, which they no doubt will want to do so, then we will buy those things. But inevitably, nobody is ever going to prevent people from abroad from buying American-made goods or American services. I rest my case.

WOODS: All right, and with that, I would like to say a big thank you to Dan McCarthy and Gene Epstein. Let me give each of these folks an opportunity to say how people can follow them and what they're doing. It doesn't mean to imply any institution they might be associated with endorses anything they've said, but if you'd like to know about each of these gentlemen – Gene, we'll get to you in a minute because of your debating society in particular, but Dan, where should people go? What can we promote for you?

MCCARTHY: One thing I would like all readers to check out is my work as editor of *Modern Age: A Conservative Review*. That is a quarterly scholarly journal that is published by the Intercollegiate Studies Institute, and its website is ModernAgeJournal.com. It also has a wonderful app, which you can get at the iTunes store at whatever service you use to get apps on your telephone. And I should mention, by the way, the last time I promoted this on Tom's show, we actually had a snafu with the iTunes store, and so the app wasn't available. But I guarantee you it is available now and it is wonderful. You'll really love it.

And you can check out my work also at the *Spectator USA*. That is a new American venture by the great British conservative magazine that was started in 1828, and that is USA.Spectator.co.uk. And you can follow me on Twitter @ToryAnarchist. Thank you very much.

WOODS: All right, very good, Dan. Now, Gene, let's say a word about the Soho Forum at TheSohoForum.org. In fact, I'm going to say a little something. I hope this doesn't sound like favoritism. I've been friends with both of these guys. But there is coming up – if you catch this episode in time, April 16th, 2018, there is a debate taking place in New York City as part of this Soho Forum that I will be attending myself. Bob Murphy is debating George Selgin on fractional reserve banking and whether it causes instability in market economies. So that'll be fun and interesting. It'll be opened by Dave Smith, the great comedian. Dave Smith and Bob

Murphy of course join me on the Contra Cruise, ContraCruise.com, which is the great vacation time of the year. But Gene, I've pretty much done it.

Oh no, here's one other thing before you say anything: if you attend at the Soho Forum, if you attend this debate, all you have to do is find Gene Epstein, go up to him, and say "Tom Woods," and you get a free drink at the bar. So there you go.

EPSTEIN: Thanks, Tom. By the way, I want to say that you want to go to TheSohoForum.org to buy tickets. I guess it's the magic of Tom Woods' presence and Bob Murphy, but we are actually selling out fast, and I really do urge you then to buy a ticket. It's \$18 apiece, \$10 for students, TheSohoForum.org. Thanks very much for the plug, and I want to say that I subscribe to Dan McCarthy's publication, *Modern Age*, and I recommend that everyone else do so.

WOODS: All right, and thanks to both you gentlemen very much for your time today.

EPSTEIN: Thanks, Dan. Thanks, Tom.

MCCARTHY: Thanks, Gene. That was a very good talk.