

**Episode 2,350: Economics for Normal People**

**Guest: Saifedean Ammous**

**WOODS:**  to I'm going to tell you, Safe, that there are a number of books that are kind of introductory works to get people knowledgeable about the Austrian School of Economics, or about economics in general.

But they're either too elementary or, I don't know, they leave something to be desired. I am not saying this just because you're here.

This is going to be the book I recommend to people from now on when they say: *I want to know some economics*. Or: *I want to understand the Austrian school. What are you people talking about?*

Without a doubt, no hesitation whatsoever, it's going to be your book. No hesitation whatsoever. This is an absolute masterpiece. And so, my first comment to you is a comment only and not a question. Just: *Congratulations.*

**AMMOUS:** Well, thank you so much, Tom. This means a lot coming from you. I spent a lot of time thinking about how people like you would like this book, and it's a huge relief to hear that you like it. Thank you so much. It means a lot.

**WOODS:** Well, it's written for the intelligent layman in a way that never talks down to him and is written at exactly the right level. So, it's not a whole lot of jargon either, that only economists would know.

It's just the right level. It's perfect for what it seeks to be, which is a principles book. So, let's dig in. Now, obviously, when you're talking about a book like this, that is systematically presenting the field of economics – it's a little different to do a podcast interview about it.

I don't really think it's possible or even desirable to try to reconstruct every building block of economics with you.

Instead, what I've done is I just picked out some topics that I think are important or where you take, let's say, a controversial position – which is, like, every other page – but even a controversial position maybe within the Austrian school, and talk this through a little bit.

But before we do that, let's start with, you say in the book that this is an unapologetically Austrian overview of economics. So, if you have a one-minute elevator pitch to give about Austrian economics, how would you describe its distinguishing features?

**AMMOUS:** I guess the most important thing is that it is not government propaganda. That's the most distinguishing feature. And then that leads to the fact that it approaches economic phenomena with the intent to understand them.

Whereas government propaganda economics approaches them from the perspective of: We need to answer questions for policymakers about how to manage the economy best. So, this is not policy-oriented. It doesn't attack the questions of economics from a policy-oriented framework.

You may arrive at policy conclusions, but it is a scholarly study of the phenomena of economics and the things that people decide and how people act. And of course, the primary way in which Austrians do that is that they look at human action.

They look at how human beings act and how their actions cause economic phenomena to take different shape and what are the implications of these actions.

Which is the fundamental difference with mainstream economics, because mainstream economics posits all kinds of forces that can be measured through aggregate statistics, which they then conclude will result in helping us understand economics by analyzing how these aggregates are related to one another, which we can do in the same way that physicists look at physical metrics.

So, weight, mass, pressure, volume, speed – you look at all of those things and you can establish scientific relationships between them. And "quack economics", as I like to call it, mainstream economics, attempts to just copy that into studying economic action.

And of course, it fails miserably because the building blocks of economics, the things that create economic phenomena, are humans acting and not atoms, not physical things that are responding predictably to stimuli.

Human beings are far more complex than things because they have a will of their own and they have a mind of their own. And you can't model their action and their will and their reactions in the same way that you model physical characteristics.

**WOODS:** So, do you take a position on the issue of the proper method of economics? Because there is even some disagreement about this within the Austrian school itself.

**AMMOUS:** While writing the book, I tried to kind of avoid discussing methodology and academic debates too much, and I wanted to just get to the meat of the matter.

I wanted to get to, how do I explain the concept of capital? What is capital? Why is it important for somebody living in the world today to have a good understanding of capital and how it works? What are capital markets? What is economic calculation?

All of these really important concepts that are in Austrian economics, they're quite difficult to explain simply. And for me, the motivation was, how do I get this idea across? And to do that, I've had ten years of experience as a university professor communicating different ideas in economics.

And I think getting into these debates about, *"What is the correct methodology and how to approach it?"* can be off putting. In fact, one thing – I don't know if you noticed this, but I think in the entire book I barely ever use the word "praxeology". The book is praxeology.

It follows praxeological method. But from my experience, I just always found that every time I use that word in class, the students just lose track of what I'm trying to communicate.

Immediately they get this idea that: *This sounds weird, praxeology. What is he trying to sell us? Is this some kind of cult? Is he trying to get us to join something?*

It's just a word that's not intuitive. So, the hard thing about writing sometimes is to try and simplify things. I think it was Oscar Wilde or Mark Twain or one of these authors who once said: *I would have written you a short little letter, but I didn't have time.*

**WOODS:**  I heard that Plato said that. So, I don't know where that came from. But whoever said it was on to something.

**AMMOUS:** Absolutely. It's easier to rant. Anybody can just hit their fingers on the keyboard and make thousands of words. It's very difficult to get your point across in a few words or in a few pages.

So, with all of those things, the motivation was to use the Austrian method, thinking about it through human action, trying to start with a framework that is praxeological in the sense that, somebody does X, acts.

And then what happens when they act in that way? What happens when Robinson Crusoe decides that he's not going to spend all of his time today catching rabbits? Instead, he's going to spend some time building a spear? Well, now he develops a spear and now he has a capital good.

So, I try not to get bogged down too much in the methodology and focus mostly on communicating these ideas. And to do that, I just went with the written word primarily.

I think, like, in Rothbard's, *Man, Economy, and State,* he does use quite a bit of mathematics and formulas and equations to try and express things.

And I honestly found that to be a little bit tedious as well as kind of tangential because in a sense he's trying to talk to the mainstream to try and get the mainstream to acknowledge him. Which, my motivation for writing this book was that after I wrote *The Bitcoin Standard*, I developed my own readership.

I have people who like to read my work and I can write for them. I don't need to get the acceptance of academics. I don't need to care about whether academics like my book. In this regard, you've been an inspiration to this. You don't care about what academic journalists say about your books.

**WOODS:** [laughing] Nope.

**AMMOUS:** And that's extremely liberating because you want to write for actual human beings and not for committees of academics.

**WOODS:** That's right. Let's go to a very specific topic in your book, because contained within it is so much important economics. And that's a topic that maybe people have heard a bunch of times, but I think there's more to be mined from it.

And that is the debate between Julian Simon and Paul Ehrlich about commodities. So, can you set the stage there? Because you could understand why – now, Paul Ehrlich has no excuse.

But you could understand why an uneducated layman, let's say, or a layman whose specialty is in some other field, could have believed what Ehrlich said about various commodities growing scarcer and their prices in real terms going up.

Because you would think: *Well, sure, over time their supplies will be depleted, and so this is a natural consequence of that.* I could understand why the average person would think that. But can you just set the stage? What was that all about and why was Ehrlich so wrong?

**AMMOUS:** Yeah, I think this is really a very important thing. And I think this is the one thing that I get from relatively non-Austrian economists. I don't think Julian Simon would have considered himself an Austrian. Would you agree?

**WOODS:** Maybe a fellow traveler. But I don't see anything specifically Austrian about his work.

**AMMOUS:** Yeah, I haven't seen him identify as an Austrian. His methodology isn't really very Austrian. But it is something that I believe fits so well with the rest of the Austrian canon that I added it as one of the early chapters.

So, the first three chapters of the book are – so, part one is called "Fundamentals", and that's the first three chapters. And the first one explains human action, the second one explains value and the concept of value from a Mengarian perspective.

So, the first one is really Mises, the second one is Mengar, and then the third one is Julian Simon, which may stick out as odd for Austrians because he's not an Austrian.

But I believe his framework for thinking about scarcity as really being ultimately the scarcity of human time, fits in very nicely with the rest of the Austrian canon.

I mean, it doesn't really change much of the conclusions of Austrians. It's not like it contradicts Mises or Rothbard, but I think it frames their work in a much nicer way.

And the key idea here (which he explained in his book, *The Ultimate Resource*) is that we can make more of anything we want as long as we dedicate more time to it. Therefore, the meaningful constraint on how much we have of any single thing on earth is just how much time we dedicate to it.

And if we're willing to forego other things in exchange for more of this thing, we'll have more of it. So, if we wanted more gold – gold is the scarcest thing in the crust of the earth, but every year we find more gold than the last year.

There's more gold being produced this year than last year than the year before and the year before. I mean, sometimes maybe it drops a little bit, but overall, the trend is constantly increasing. We're always finding more gold because we're always digging for more gold.

We're always developing more advanced technology for producing more gold. And so, if we were to have a gigantic increase in the demand for gold, then we can dedicate more resources, we can take resources away from other goods, from the production of other goods and dedicate it toward the production of more gold, and we'd have more gold.

And the same is true for pretty much everything. And this, of course, in the 1970s was completely ridiculous for somebody like him to say that. And of course, I'm sure he got laughed at at all the universities where he was saying this stuff.

Because in the 1970s, remember, there was inflation, and so the price of everything was going up. And so, the ideas of: We're running out of resources. These ideas were very, very popular at that time. So, everybody thought the price of everything is going up.

Clearly, that can't have anything to do with our benevolent, all-knowing, central planners who are printing increasing quantities of money and generating endless credit. Obviously, they know what they're doing. Clearly, the earth has just run out of things.

The reason the price of nickel and copper and all of those things has gone up at the same time, somehow you're supposed to believe that all of these things suddenly became more expensive because they all became more scarce, not because the money (which you're measuring the price of those things has gone up.

And of course, this is now becoming harder and harder for people to argue this. Because here we are 50 years later, if you look at the price of commodities denominated in gold, then they haven't really been getting more expensive. If we'd stayed on a gold standard, things are still relatively stable.

And in fact, if you measure them against human time, if we had a form of money that was even more scarce than gold. And of course, with gold, there's a problem that it is manipulated, and central banks control the stock of it. So, it's not exactly all that good of a measure.

Arguably, if we had a better form of money that wasn't manipulated by central banks, then we'd have prices of everything drop. And in fact, if you measure them in terms of human time – which is what Julian Simon suggests.

If you look at how many hours you need to work to obtain a particular good, you see that over time the prices of all those things continue to drop. 40 years ago, the average worker had to work for, say, this many hours to obtain a bushel of corn.

Today, he needs to work a quarter of that time, perhaps, to obtain the same bushel of corn. Even though, of course, the price of the bushel of corn has gone up maybe 10x in those 40 years. But still, in terms of human time, it is still becoming more and more abundant.

And this is true for everything, for all commodities. And I showed data from Gale Pooley and Marian Tupy. They wrote a book called *Super Abundance*. And in that book, they show how over the last 40 years – and specifically 1980 to 2020.

Basically they take 50 of the most common commodities and they show that they're practically a quarter as expensive as they were 40 years ago in terms of human time. So, the reason for that is that, as I mentioned earlier, we can just make more of all of those things if we just dedicate human time.

So, the really limiting factor, the real scarcity here is human time. And if we add an infinite amount of humans to dedicate toward producing more and more goods, we just keep making more and more. Because the limits of the earth are so far beyond what we can even measure (let alone extract) that it is not in any meaningful sense a limit.

It's like thinking of – you're drinking water from a river. You don't worry about the river running out from you drinking water. Because you could drink for all the rest of your life, and you wouldn't even make any perceptible difference to the quantity of water in the river.

So, what matters ultimately is the scarcity of our human time. And thinking about economizing our human time is what ultimately matters the most. And that's, I think, a good way of framing all of the rest of the book.

Because essentially, the way that I thought of presenting this was to begin with looking at the method of human action, economic value, and then the scarcity of time and the economizing of time. And then with that framework, move on to the second part of the book, which is economy, or how humans economize.

And that's all about the actions that humans take to increase the quantity and the quality of the time that they have on Earth. That's what economics is, because ultimately, yes, you're economizing resources, but why are you doing that? Why do you care about economizing the resources that you have?

It's ultimately to increase the quality of time that you have, provide yourself with subjectively valuable things. And to increase the quantity of time to increase your livelihood, to avoid early death, to try and live as long as you can.

And so with that framework, we can then move on to, what are the things that humans use to economize? And that's part two of the book. So, the first chapter of that, chapter four, discusses labor. That's the basic thing that we do. We work and so we can make our lives better.

Then property, we start taking property. So, I explain the concept of property. And then one specific form of property (which is my favorite kind of property) capital. That's chapter six. What is capital? Capital is property that is owned not for its own sake, but for the sake of producing other property.

And then chapter seven looks at technology and chapter eight looks at energy and power and how we direct energy and power toward our economizing decisions. So, this, I find, to be a useful framework to begin to introduce economizing.

And then these are what I call the individual economic acts. These are the things that you can do on your own if you're on an island. But then part three is the market order. Well, what happens now when you introduce other people and we can all economize together? And that's when the magic happens.

So, chapter nine discusses trade, and how we trade, why we trade. What are the benefits of trade? The concept of absolute advantage, comparative advantage. And then chapter 10 introduces money, which is a way to supercharge the productivity of trade.

And then chapter 11 introduces markets, the concept of markets and how markets function. And then chapter 12, the last chapter in this section is about capitalism. And it introduces the concept of economic calculation, the Mises definition of capitalism.

So, I think that's a good way to build up the ideas of economics and introduce them one-by-one, by framing it around that idea of economizing time.

**WOODS:**  Well, I thought it was interesting that the Julian Simon and Paul Ehrlich thing was in the section on time. Which is a – now that you've explained it, and of course you explain it in the book, it makes sense. But it's not where maybe the average reader would have expected it to be.

And by the way, the Ehrlich side of that tried to claim that it was just bad luck, that it was just the years that were chosen and that: *Them's the breaks. Maybe sometimes there is a fluky time when the prices go down.*

But they compared Simon's optimism that this was the natural order of things to somebody who jumps off a cliff in the confidence that somebody will develop a parachute while he's in the air.

**AMMOUS:** No, that's ridiculous. I just realized now that I kind of avoided answering your question, which was about specifically the bet.

So, yeah. So, in the 1970s, there were all kinds of – I'd like to use the word "hysterics" because it's a word that's growing in relevance and importance in our modern world. But back then in the '70s, the hysteria was that we're all going to run out of all the important things that we need.

And so, people like Paul Ehrlich were going on TV and publishing books and talking about how we only have three more years of nickel left, and seven more years of oil, and eight more years of fresh water or whatever.

And that was basically considered just the end of the road for capitalism and human civilization. We milked the earth dry, and anytime now it's going to stop giving us its bounty and then we're all going to starve and die.

Or at least we're going to have to massively depopulate the earth, which is the kind of common theme of a lot of this Malthusian insane people. And so, Simon just went and said: *I'll bet you that you pick any five commodities and you pick* – I think it was five years. Or was it ten years?

I forget, but the details are in the book. And so, Simon said to Erlich: *Pick any five commodities over a time frame of 5 or 10 years, and I bet you the price of those commodities is going to be lower at the end of that period than it is at the beginning of that period*.

And indeed, that is exactly what happened. The five commodities that Ehrlich himself picked, which he thought would be the best choice for proving that we're running out of stuff, those commodities became cheaper at the time period in which Ehrlich said they would run out completely. So, not only did we not run out as the Malthusians would have expected, we had more of them.

And the reason is, of course, because once we get more demand for those things, once demand increases, more people become rich enough to command more of those goods – more people want iron and nickel and copper and all of these goods for their electronics and their industrial applications and all kinds of different uses – well, that just generates more demand.

And more demand generates more economic incentive for people who produce those things to make more and more of them. And so, people who produce those things will indeed make more of them and bring more of them onto the market.

And while investing in doing that, they invest in capital production, so they make more and more capital. And that capital leads to the decline in the cost of those things. So, once we build more machines – initially the machines are expensive, but eventually their cost is paid off.

And then we benefit from the fact that those machines give us cheaper and cheaper output of all the goods that we want. And so, I think it was a comprehensive victory for Simon.

And I think if you run this in the long run, the only way that you could run this bet in a way that Simon would lose it would be if you essentially massively understate the inflation that's taking place. And so, that if you use bogus statistics for inflation, then it might appear over a certain period of time, probably say 2003 to 2008.

Yeah, commodities went up, but commodities went up if you're comparing them to CPI, which is a bogus metric meant to make people think that there is no inflation. But then what happened in 2009 and 2010?

And then what happened in 2020? The prices of all these commodities crashed back down. So, of course, the notion that we're running out of any of these things is ridiculous. What we are really suffering from is inflation. That's the real issue.

**WOODS:** I want to bring up another quick thing and then we'll postpone the rest of the conversation to another episode. But you take a position that's a little bit controversial, even among Austrians, but I'm not sure how fully Austrian the Austrians involved are.

But that has to do with, in your discussion of labor, the question of whether involuntary unemployment is possible on the free market. And you say, *"No."*

And I remember there was a public debate about this – I mean, just kind of a back-and-forth blog style debate. Where one side was saying: *Look, Mises says this clearly. That if you understand the terms correctly, there is no such thing as, on a purely free market, involuntary unemployment*.

And the other person – I won't name his name because I'm too nice of a person. The other person said: *Mises never said that*. So, the first debater produced the passage, said: *Here you go, here's Mises saying it.*

And then the other person shifted the goalpost and said: *Oh, now you're going to believe something just because somebody says it.* Well, the point was you were denying that he said it! So, therefore, I produced the passage. You know, I mean, it was just dumb.

But what do you actually mean by that? And what would be the difference between unemployment on a free market and unemployment under statism?

**AMMOUS:** The two main ways in which unemployment is created are monetary policy and minimum wage laws. Those two things are what produce unemployment realistically.

Because in the absence of those two things, we live in a world in which prices are constantly declining, so everything becomes more and more affordable over time, and in which everybody has the freedom to work when they want to or when they don't want to.

And so, in that world, it makes no sense to talk about unemployment as if it is this massive problem. What we have is people who just don't want to work, and that's a perfectly normal and healthy thing. Nobody works all of their life, every day, every hour.

People need to sleep, need to eat, to have a family, need to perhaps even have some leisure if they're lucky enough. And there are times in people's lives when it doesn't make sense to work. You want to take a break, you want to focus on something else, you want to retire, you want to stay at home, take care of the kids. These things are common.

And so, it's just a simple market decision. And choosing to sell your labor is no different than choosing to buy apples or sell apples. It's just another economic good. And so, on a free market, maybe these are the prices that are being offered for me to work at this point. This is the skill set that I have. This is what people want to pay for me.

Well, if at that price, I don't want to work, well, this is not involuntary unemployment. I just don't want to work at this price. I don't have a right to force people to pay me what I think am worth. I can only ask them to pay me what they think I am worth.

And so, this notion that I have a claim to society that owes me a certain salary because that's how special I think I am, is, I think, the root of the problem. The problem is that that's the absurdity of the definition on a free market.

Now, in the statist world, the reason we get unemployment is, A: minimum wage laws. Which make it so that it's not possible for some people who want to work to get employment at the productivity that works for them, because their productivity is considered essentially illegal.

It's a level of productivity it's illegal to work at. So, you're able to contribute to my business at $10 an hour, and I'm happy to pay you those $10 an hour. But there's a law that says I can only pay you $15 an hour. So, in that case, yeah, you would be involuntarily unemployed because I would get into trouble with the law if I were to employ you at the rate that works for us.

And of course, the long term implication of this is not just that you're not working today. The real problem is that the only way for you to get your productivity up from $10 to $15 is to get a job. Is to get a job, turn up, figure out what we do in this work and start getting better at it and then raise your productivity.

The thing that I think is very telling is pretty much every single job out there starts off under the minimum wage. If you look at doctors, you look at engineers, you look at the most high paid jobs, lawyers or even CEOs and executives. What was their first job?

Well, their first job was an internship. When you finished med school, you go and you work and you do a residency, and you're getting paid less per hour than the janitor in the hospital. I know. My brother was a resident, and he was getting paid less than the janitor.

He was getting paid less than the minimum wage. If you count all the time that he needs to spend studying to keep up with what's going on in his residency, it's really not a good bargain. If you look at engineers, they start off with unpaid internships, many times.

They might do them in college or they might do them right after college. Same is true for lawyers, all these kinds of jobs. When you start at a job, when you haven't worked, when your job experience is zero, your productivity is approximately zero.

So, it's asking a big ask of an employer to take you on and offer you a full salary. It's probably – I mean, the fact that they're just having you on when you have a low productivity is itself a very kind thing of them to do.

It's not really kind. They're doing it on the hope that you will develop into a valuable worker that they can then hire you. But that's how it is for all jobs. You start off with very low productivity and then you learn on the job and you work your way up.

And what minimum wage laws do is they make that illegal for low skilled jobs. So, nobody's out there saying: *Hey, you know what? Doctors and lawyers and engineers, you should not be allowed to do unpaid internships*.

Well, now they are actually. Crazy people are still trying to get that canceled now, because these are the times we live in. But generally, most people, when they talk about exploitation of workers, they think of low-wage workers.

And so, effectively they're just banning these people from acquiring the skills. But then the second way in which government creates unemployment is monetary policy and business cycles. And so, when you create the boom, you create malinvestments in certain sections of the economy.

And so, there's artificial demand for a particular job. And so, more and more people go into this job, say for instance, like in the US, it was housing in 2007. Or all kinds of different sectors of the economy in which people start acquiring skills to get into this section.

And then when the bubble bursts, all of these jobs are eliminated and the demand for these jobs is eliminated. And now you have a very large number of people that are essentially unemployable because they don't have good skills that can be transferred to other parts of the economic system.

And so, it's distortions of the market that create this idea. On the free market, anyone is free to work at whatever price they want and whatever wage they want. And so, the notion that somebody is "unemployed" seems not possible, in my opinion.

**WOODS:** Well, we're going to pause here and continue in tomorrow's episode, but I want to urge people to get your book. I'm going to have it linked at TomWoods.com/2350. Of course, it's *Principles of Economics*. But do you want to give out your own website here? And maybe you have to spell it.

**AMMOUS:** Yes, it's Saifedean.com. [he spells it out] And then there you can find this book. You can buy it directly from my website if you like, or you can also find it on Amazon, Barnes and Noble, and most major booksellers. It's out in hardcover and e-book so far, and the audiobook is coming very soon.

**WOODS:** Excellent. All right. Well, again, I cannot endorse it highly enough, so check out Saifedean's book, *Principles of Economics* and we'll talk again tomorrow. Thanks so much.

**AMMOUS:** Thank you.