



Episode 461: The Fallacies of Bernie Sanders

Guest: Grant Phillips

WOODS: I'm telling you, I've had people begging me for an episode on Bernie Sanders, and originally I had a guy in mind from *National Review* magazine. I thought, you know, I don't really like *National Review*, but they're probably pretty good on Bernie Sanders, so I was going to have this one particular person on, and doggone it, he just — after a while, he wouldn't respond to me. And I think it's because he kind of put two and two together and figured out, ah, wait, hold on a minute. Woods is one of these extreme libertarians. I mean, I'm against Bernie Sanders, but not as much as that guy is.

So I thought, all right, what else can I do? And I was not familiar with your work at all, or I would have gone to you first. So I looked around; I found what you've been doing, and you've got at least three articles on Bernie Sanders that are just top notch. And I'm not an easy critic. I'm not very easy to please. I'm going to link people to those articles on today's show notes page, TomWoods.com/461. That's where you can get — that's the one stop shop for how to answer all your friends who love Bernie Sanders.

Now, Sanders has got a lot of different positions on a lot of different things, but I think the attraction to him is not so much the specific policy proposals as it is two things: one, his overall worldview, and two, the fact that he's not Hilary Clinton. I think there are a lot of people out there who are frustrated at the seeming inevitability of the coronation of Hilary Clinton, and they just don't like this process, the same way that the Republicans have the sense that, okay, Donald Trump I'll grant you is a bit of a wild card so to speak, but there is otherwise this sense of inevitability that it's going to be Jeb Bush, and everybody's frustrated by inevitability. That's one thing.

But I think more than that — if that was all it was, I would say, yay for Bernie, because I don't want to see Hilary Clinton either. But it's that worldview of his. So let's start there instead of the specifics. What's his overall way of looking at the world? What's his big picture philosophy that he's trying to convey in these huge rallies of his?

PHILLIPS: Well his big picture philosophy is basically that economy is a fixed pie. Everything is a zero sum game, which is to say that one person's gain comes at another's expense. And as we know, obviously that's not true, because if that were true, I would still be driving a horse and buggy. That's how production happens. Wealth is created; when new technology is created, wealth is created. So it's not a

static economy. That's what he believes. He believes it's a static economy. Now, he also confuses a lot of statistical categories with flesh and blood human beings, in so far as income and wealth go, and especially as far as poverty goes. So really, he sees the world as — he almost sees the economy as if it's flat, as if it doesn't change, it's always the same, and I don't think he really understands the real quality of life gains that have been made in the United States in the last over 30 years.

WOODS: Well I think one of his claims is that the quality of life gains have accrued only to those at the very top, and that everybody else — the so-called 99% — has enjoyed no such gains, and if anything, they've stagnated or even retrogressed. What is the truth of that?

PHILLIPS: Well, this is a statistic from Heritage that I like to cite, because I think it really gives you an idea as far as quality of life trends and consumption. So in 1970, 36% of the entire U.S. population had air conditioning. Something today that most of us take for granted. Fast forward to today, and 80% of poor households have air conditioning. That alone speaks volumes to the availability of goods to low income households. 92% have a microwave; three-fourths have a car or a truck; two-thirds have cable or satellite TV. That's huge And he really overlooks that and boils those gains down to statistical categories, meaning he sees income going to one category or another and assumes that nothing within that category has changed and that the same exact people are in it today as there were 30 years ago. That's just obviously not the case.

WOODS: Now, it's funny that you put it quite that way, because one of the things that — I know I didn't make this up, but I don't remember who did — that I used to remind people of the progress that's been made is to realize that most of us have amenities in our cars that people didn't have in their houses a generation or two ago. You can listen to an mp3 player — I mean a CD player is kind of passé now. But you used to have that. And you would have air conditioning in your car. And now you've got ways to communicate with people in your car; you've got video screens of various kinds in your car; you've got a camera to make sure you're not going to hit anybody when you back up. You've got ridiculous amenities that nobody had period not even in their houses in some cases. So it is important to bear in mind, especially, I would just ask people, if you really think there's been no gain for you, you're telling me you would rather live in 1977 than in 2015. You feel like you'd be driving a nicer car? You feel like you'd have better technology at your disposal? You feel like you'd have more leisure time, working in 1977? I think if I put it that way, people — I think they'd prefer not to get in that time machine.

PHILLIPS: Yeah, I agree. And there are goods available to low income households today that John D. Rockefeller could not even begin to imagine. And that's huge. That speaks volumes to the gains that have been made in our economy.

WOODS: Well, what about the CEO salary thing? That gets a lot of attention. The argument is that the CEO that is getting a huge, huge salary, and that the gap

between the CEO and the typical employee is widening, and that this is a social problem.

PHILLIPS: Yeah, one of my fellow administrators at We Are Capitalists did a wonderful article on this. Basically there was an Occupy Democrats meme that listed all these random companies and their per hour salary of their CEOs, and he found that if you completely eradicated the CEO's pay from each of these companies, none of their workers would even come close to receiving a 50 cent raise. So that kind of puts into perspective, that even if you were to lower the CEO's pay accordingly, how much do you really expect to gain on the other end of it?

And secondly, it comes back to niche skills in a market that are in high demand. Anyone can be a cashier; anyone can pour coffee, but really to manage the risk of billions of dollars, that's not something you can just find anywhere. You know, that's something that you have to pay heavily for and – but even statistics with CEO pay are extremely misleading. I think EPI said that CEO pay has grown 1,020% since 1980, but that's because they took pay of the top 250 corporations, their CEOs, and then took also their stock options and included that as compensation, and then said, look, the average CEO pay has increased. Obviously that's completely disingenuous. It doesn't really expand to the bigger picture of our economy.

WOODS: I can understand, though, in an age of globalization, why a CEO's salary might increase faster than somebody else's salary – the janitor on the fifth floor. I can think of benign explanations for this. In a globalized economy, your customer base is potentially much, much larger. So therefore, the impact of the decisions that you make as CEO are much more far reaching and potentially devastatingly wrong. If you're wrong, it's devastatingly wrong, and you've got to carry that on your shoulders. Your every moment becomes very, very important and significant. So I can understand.

And it doesn't – the whole matter of income inequality, I guess we should say a little something about, because that really is at the heart of all this too, when you're talking about CEO pay, the problem is alleged income inequality. I don't care about income inequality. It doesn't affect me in any way. It doesn't affect my income. It's not like the people who are flying around in private jets, it's not like they're the reason that my speaking fee isn't twice what it now is. They're not taking the excess of my speaking fees. They're not taking any of my book royalties. This is just pure envy on the part of people. So I'm looking forward to Yaron Brook's book next year that just outright celebrates income inequality, because there's nothing morally wrong with it. The moral problem is dwelling on it and obsessing over it, when none of these people owe you anything.

Now let me just, by the way, anticipate an objection that I will get my inbox filled with if I don't insert this caveat. I know there are some people who got their wealth through means that are disreputable or that involve special government privileges. Obviously I'm not talking about those people. But I am talking about great innovators, who in my view, they deserve our admiration, not our contempt. The contempt should

be for people who have never done a thing to increase our standard of living, and that's the political class.

PHILLIPS: Yeah, I agree, and when people talk to me about income inequality, I say the same thing. Income and wealth, I enjoy reading scholarly research about it, but as a political issue, it's meaningless. It doesn't really bear any resemblance or any effect on politics. And I put it this way: if you had \$100 pie, would you rather have 50% of that or would you rather have 25% of a \$1,000 pie? And I think anyone who can do math will say they want 25% of the \$1,000 pie. Now that being said, statistically speaking, it looks as if you are somehow disenfranchised by someone else having 75% of the pie. Well doesn't mean that that has come as an expense to you, because your slice nominally has grown. And that's the underlying argument in favor, I guess, of income inequality.

Now, I've never once denied that income inequality does not exist. It certainly does exist. I think how you measure it affects your perception of it. So you kind of select — like Thomas Piketty, his book, he selects data very, very vaguely, and sort of puts it in a way that doesn't really add up. And it's not very inclusive, you know? It doesn't include transfer payments, gifts of inheritance, income in kind, net increases in the real value of assets. But if you include all these things and if you put a different time stamp on it as far as when the income is realized, income inequality dramatically reduces, and over the 20th century, there has been a sharp reduction in wealth concentration, because people have become more productive and the pie has grown.

WOODS: What about the Scandinavian example that is often raised, including by Sanders and his supporters themselves. They'll say look at Sweden and Denmark and Norway; they're very prosperous, and they have less inequality, and people are doing very well over there, and it goes to show that ideologues like us are totally wrong, because you can have prosperity and you can have material wellbeing without a full blown laissez faire economy. They have a very heavy welfare state there with substantial government spending, and the people seem content enough, so why shouldn't we imitate the Scandinavian model here in the United States?

PHILLIPS: Well, I think the first misconception there is that Scandinavians are somehow a socialist country. They are in so far as education and healthcare goes and a few other things, but they really don't have the big occupational licensing laws; they don't have some of the permitting laws that we have to go through.

So in a way — and many sources rank them higher in economic freedom than in the United States, and that's for a number of reasons — but trying to transfer or trying to mimic their policy in the United States is misguided from the get-go, because one, it's largely white population. It's just over 25 million people, so there's a lot less people. Also, that would be assuming you can transfer their system to one city managing the resources and demands for 300 million people, which just going off observational evidence of our government's competency, I'm going to go ahead and say that they are not capable of doing that.

And I think if you look at some other ways that they're different, so Denmark is this really happy country, right? They also rank higher in alcoholism and suicide, so clearly that measure is pretty subjective for whoever is answering that question.

And then they talk about, okay, well how do they accomplish this, how do they accomplish this big welfare state; what are we going to do? Let's tax the wealthy; let's tax the rich. Scandinavian governments spend 44% of their GDP, like in Norway, and 57% in Denmark. The United States spends 35%. So they spend a lot of money. They also collect a lot of money. In the United States, an average childless single worker has a 31.5% net tax burden. Scandinavia, in the lowest country, Norway, has 36%. So it's higher taxes, higher spending.

And not all of that spending necessarily goes to the welfare state. So they do spend more — they do have more social spending so far as government spending goes, but if you adjust for certain tax structure variables, private spending, purchasing power, and GDP per capita, the United States quickly passes Scandinavian countries on social spending, mostly because we spend a lot more privately. We're a very charitable nation. And this was all documented by an economist from the University of Arizona on data from 1900 and 2003, a wonderful piece.

WOODS: I've done a couple of episodes on the Scandinavian thing, and you're right, there's something fishy about the happiness research, or at least the way it's being spun. I had a professor from Denmark on the show who is a specialist in that area, and he says it is totally wrong, absolutely wrong what you see on Facebook, that Denmark is the happiest country in the world, and it must be because they have a high minimum wage and all these social services and so on and so forth. He says that has nothing to do with it at all, so I will link to that episode also at TomWoods.com/461 and also to my episode with Johan Norberg, who is in Sweden, who has written a lot about this, and who points out the pretty unimpressive jobs record of welfare-state Sweden going up through the 1990s.

He finds that during the period of this welfare state, the net number of private jobs created, private sector jobs, is zero. That statistic I found incredible; I had never heard before. So there's that. And then he reminds us of the old adage about the best way to get a small fortune is to start with a large fortune and whittle some of it away, and he says that's exactly the history of Sweden. They became a wealthy country through the free market, through the good fortune of being able to avoid war and not having their capital stock wiped out, and the result was they had all this wealth that they could then plunder for the welfare state. So the real story over there is not the comic book one that we typically get.

Now your series of articles includes an article — this unfortunately I'm sorry to say is one that I have not read — you have an article analyzing the "Ask Me Anything," the AMA session that Sanders did on Reddit. Did you find any real gems in that session?

PHILLIPS: Yeah, my favorite — and it's because I work in high tech manufacturing for a Hines machine shop that does some of the most complex work in the country — is that

he asserts that the reason the middle class has declined is because good-paying manufacturing jobs have gone overseas. First of all, good-paying manufacturing jobs have not gone overseas. Low-paying manufacturing jobs have gone overseas; otherwise, they wouldn't go over there. So drawing on data from the Federal Reserve, again, low- and middle-skilled jobs have declined, but high-skilled manufacturing jobs have increased.

And actually one big misconception is that there is somehow a loss of jobs in manufacturing, because for one, I'm just speaking from experience, we struggle to find young people who are very well talented, very well versed in manufacturing, whether that's CNC programming, CNC operating – and these are \$28 an hour jobs that are great jobs, that if you don't go get a gender studies degree or an ancient Japanese history degree, you might be better off with taking these jobs. But again, there's a shortage there.

And drawing on that as well, if you look at output, we are still, in 2009, we ranked higher than China in terms of manufacturing output. So why have we seen this decline of jobs, but output keeps going up? Well, it's not that manufacturing has declined; it's just that it has changed dramatically. So basically, instead of making trinkets and dolls and little things that no one wants to make for \$7.25 an hour – right, minimum wage – we're making high tech 3D scanning equipment; we're building semi-conductor equipment that makes the smart chips in you iPhone; we're building high tech manufacturing robots. So these are things that companies come to the United States specifically for us to build, because of our cutting edge, high-skilled labor force.

WOODS: Now related to this – it may not be obvious how it's related – but related to this is the proposal – I don't know if it's an express proposal from Sanders or it's just a meme from his supporters – but it has to do with tuition-free university, again using Europe as a model. There are European countries where you can go to school for free, and shouldn't we have that here; wouldn't that be great? Is there any problem with that? Wouldn't that help people get jobs better, if we had free college for everybody?

PHILLIPS: Not one bit, and anyone who's been through the university system, such as myself, in the last 10 years can probably attest to that. Education today, as it becomes more and more subsidized, it is becoming more and more expensive, and Brookings actually notes in a piece, which is a fairly left-leaning organization, that net college tuition – meaning what you pay – has only increased 13%, whereas actual tuition sticker price has increased enormously, because the market's become a competition for government funding and not for actual consumer demand.

But looking at the European model, you immediately see numerous flaws. Now let's just take Finland, for example; I know that's a popular one; people like Finland. So Finland, if you want to teach just in their high school, really, you have to have a Master's Degree – which is a pretty demanding requirement – yet, starting pay is only \$29,000, whereas in the U.S. it's \$36,000.

In Germany, another popular example, college is free for everyone. No matter what. No matter where you're from, anything. You go to Germany, you can get a free education. Now, what's happening is that people have come to Germany for outcomes, not opportunities. So they have approximately 10% of total enrollment are foreign-born students, so they haven't contributed anything to the tax base, their family hasn't contributed anything to the tax base, but they are there being a tax drain. Now this isn't a shot against immigration or anything; it's just worth noting that when you make things free, people flock to it, and it inherently becomes more expensive, more costly. Just because it's free, doesn't mean the costs vanish and they just come out of nowhere.

WOODS: Well in fact, when I asked this question of David Friedman in an earlier episode — again, I'll link to this at TomWoods.com/461 — I asked him about this, and he said very bluntly, which is his usual way, he said, well I think there are too many people in college now.

And I remember when I first got out of grad school, I was still working on my PhD, so I wound up accepting a job at a community college, and this is a wide variety of skill levels. These are people who were very smart but just wanted to save money for two years — or I should say, were very smart *and* wanted to save money for two years; that makes sense — or there were people who, you know, if they really, really applied themselves they could barely get by. And then there was the class of people we were simply keeping entertained on their way to oblivion, was how my department chair put it.

And it seems that the more you make things costless and they're requiring no sacrifice on your part, the more the marginal sort of student winds up going, who really should be doing something else. And of course in a free society, you would find ways to fund school for people who really and truly need it. And of course industry would help to do it to make sure people get the training that they need, but right now, even though today is very difficult, it's a difficult time for people who are going through four-year schools, thinking this is how they get rich. They go through a four-year school, they get a degree in whatever, and on the other side they get a great job. It is hard for that. You could do that 20 years ago.

I graduated college in '94. Everybody was getting jobs. Everybody was turning down jobs, left and right. It was incredible. You major in sociology; it didn't matter. You could get a job. It's harder to do that nowadays; I'll grant you. But at the same time it is a heck of a lot easier than it's ever been to acquire marketable skills that can earn you some dough, and I want to mention, for example, something that I mentioned on this show many episodes ago; I just happened to read an article about it. I think it's out on the west coast, and it's called Hack Reactor, and it's a place where you can become a programmer. And their program is either — I don't remember if it's 12, 14, or 16 weeks — no more than 16 weeks. But it's extremely intensive, like you may as well wave goodbye to your family for those 16 weeks. And you just work and work and work. But on the other side, you wind up with 95% of these people getting jobs at an

average starting pay of \$105,000 for the tiniest fraction of what they would pay for the sociology degree.

PHILLIPS: Yeah, and you're right that education is becoming more available. There's a wonderful website called Coursera, where they let you have access to college professors, and it's not through a school; it's directly through the college professor. So right now I'm taking a macroeconomics class, just kind of at my own pace, whenever I feel like getting on my computer, and it's all taught through an economics professor from Drexel University, which, you know, I think we've had different opinions, but it's still very interesting, very accessible.

And going back to what you said about people who go to school who actually want to be there and not just for their own fulfillment, Denmark is a wonderful example of that. In Denmark, you can go to school as a saxophone to the Royal Danish Academy of Music with courses and a monthly stipend of \$1,000, and all of it's free. Now, the problem is that this is an investment on the part of the government in what amounts to a skill set that's in low demand and probably won't generate much productivity. If you look at what *Business Insider* had said is that the Danes suffer from a lack of productive employee-driven skill sets, the necessary skill sets like engineers and computer programmers, and it largely is because people go to college for their own enjoyment or fulfillment.

WOODS: Well, a couple things to say there. I have my own thing that costs a lot less money, where people who are interested in, let's say, economics from our sort of perspective or history or some of these other areas, related areas, who kind of feel like maybe they didn't get the real story in college — they got a slanted view or they got an extremely mainstream, predictable sort of view — can get a view that is more thought provoking and that has more of a libertarian slant to it. So that's my LibertyClassroom.com. And there we've got 13 courses as of this recording; we'll have 14 probably within the next four to six weeks. And they have access to me and the other faculty anytime they want, and it's \$99 a year, and I'm always giving discounts. I mean, compare that to what is being spent on this other stuff, and a lot of it's propaganda in any case, and there's just no comparison. It's incredible what's available, what people can do, what the Internet makes possible these days.

And in fact, in this very episode, I talk about Code School, which I've been promoting because I'm such a fan of it. Code School is place where you can for a very small monthly fee, like less than a buck a day, you can learn coding. You can learn HTML and all the other stuff that you would need to know to get into development, to be able to have a skill that you can earn real money from. And you don't have to go through some government job training course that costs \$20,000 a person. I mean, I think their Deluxe Plan is like \$29 a month. In other words, there are ways today that you can get skills for yourself, if you really want them, that will not cost you \$80,000 or \$200,000 and make you a debt slave for the rest of your life. The private sector has done it. It's not the government sector.

PHILLIPS: Yeah, and if anything is it's become more the government sector has only gotten more expensive. But even so, I think according to College Board, the average in-state tuition is only like \$36,000 a year, which is about the same as a new car, and I don't hear anyone running around saying cars aren't affordable. So it's only expensive if you make it expensive and you go for something that's not going to give you the return that you would expect.

WOODS: If people want to follow your work, Grant, what's the easiest way for them to do it?

PHILLIPS: So all my work is archived on my website, TheModernLibertarian.com. I also have a Facebook page, Modern Libertarian, and you can also find me on the popular Facebook page, We Are Capitalists, and I'm on the weekly webcast show, Unbiased America Live.

WOODS: Well what I'm going to do is on TomWoods.com/461 — which is just going to be a smorgasbord of delights here, because we'll have the related episodes; we'll have your articles on Bernie Sanders. I'll link to Coursera that you mentioned; I'm going to link to Hack Reactor and Code School. What the heck? I'll link to my own Liberty Classroom website. And I'll also link to all your contact points that you just mentioned, TheModernLibertarian.com and everything else. It will all be there. So if you haven't checked out my beautiful new show notes pages, TomWoods.com/461 is a great one to start with. Grant, thanks so much for your time today. I can't tell you how much I appreciate it.

PHILLIPS: Thank you for having me, Tom, and I hope to see you on Unbiased America Live one week.

WOODS: That'd be great.