



Episode 501: How Libertarians Won the Bet of the Century

Guest: Pierre Desrochers

WOODS: I'd love to say I thought of this topic and that I was aware that we had a 25-year anniversary on our hands, but it wasn't until you emailed, and I'm so glad you did. What's fun for me is that this is a topic where so many of my listeners are going to be too young to remember. I was old enough to be sort of aware in 1990 that the bet was over and the money had come due from Ehrlich to Simon, but certainly 1980, I was only eight years old; I didn't know anything that was going on. So of course I want to evaluate what it all means and what's significant about it, but start off by telling people exactly who Paul Ehrlich was and what he predicted was going to happen and what types of measures he proposed be taken to prevent those things from happening.

DESROCHERS: Well, Paul Ehrlich hits the American popular conscience in the late 1960s. He published a book called *A Population Bomb* in 1968 that at first didn't have much of an impact, because you had many doomsters at the time, people who were predicting that because of new things like DDT, because of hookworm eradication campaign, because of advances in nutrition, so many more babies were being born that we would soon not be able to feed them, and so what appeared to be a great gift or a great achievement in the short run would soon prove to be drawing too many resources to be sustainable. So he was approached to write this book in the late 1960s, and at first it fell on deaf ears, but he had powerful friends in the environmentalist movement, and then he got onto The Johnny Carson Show, which turned him into an overnight star. So I don't know if your younger listeners know who Johnny Carson was, but think of Jimmy Fallon today or somebody like that. And so he became a guest something like 22 times in the following years.

WOODS: 22 times Ehrlich was on the show?

DESROCHERS: Yeah, like 20, 22 times, 21 times. It's overkill —

WOODS: Oh my gosh.

DESROCHERS: Yes —

WOODS: Who would want to listen to this guy?

DESROCHERS: But that's the thing. He was very good. Unlike most academics, he's an extrovert and he's a very good spokesperson; he has a very deep voice. And people like doomsday predictions. And what really set him apart from other doomsayers at the time is that he would up the ante. I mean, he would say no matter what crash measures are adopted, the rest of the world will collapse soon. We need to adopt triage measures, meaning that because so many people are going to die, we need to save the best people, if you will. And he was saying thing like, if I was a betting man, I would bet that there would not even be an England in 2000.

And so what he contributed to the popular discourse was promoting measures that today we find completely outrageous that he would promote with a straight voice, like forced sterilization, putting pills in drinking water that, again, would cause temporary or permanent sterility among people, taxes on diapers, reducing cities, rewarding people for not having children, all sorts of measures that today we find completely outrageous, but that were all justified in the name of an apocalypse that could not be avoided.

And so he became a celebrity overnight, and he ended up spending the rest of his career, and he's still being showered with awards to this day, spreading this message, receiving millions of dollars, not only in grant money, but also in awards of all kinds. So by all academic measures, at least for people like you and me, he's had an extraordinarily successful career, even though he's been wrong all that time, which is quite amazing.

WOODS: I know his argument has been that I'm going to right one of these days. It hasn't been to say that I've been wrong up until now; it's just the timing was off. But I'm going to be right.

DESROCHERS: Yes. He keeps moving the goal posts, and that's the thing. If nothing else, he keeps saying, well, it's going to be even worse than I predicted; I just got my timing wrong.

WOODS: Yeah, exactly. Now, say something about Julian Simon. I haven't actually read Julian Simon myself, believe it or not, but I'm familiar with his thesis and his work, and he has a book called *The Ultimate Resource*, which maybe you can comment on. But tell me if that was written specifically as a response to the *Population Bomb* book by Ehrlich?

DESROCHERS: Okay. What's interesting about Simon and Ehrlich is that their background is so similar. They were both Jewish kids, were born the same year in the suburbs of Newark, New Jersey. So I don't know if they played baseball against each other when they were kids or if they're aware of that, but that would not be impossible. But the thing with Simon is that he began in the 1960s as a specialist in marketing who bought into this whole doomsday perspective. And so his first writing on the population and the environment are attempts to market population control techniques in less advanced economies.

But Simon, unlike Ehrlich, he was also a guy who was a data-oriented type of person. It seemed like one of his greatest pleasures in life was looking at charts and stuff, and you know, if he had been around when Excel was invented, he would have been very happy about this.

But the thing about Simon is that he began observing the world, and then, because he was in ROTC, I mean, he could not – he ended up going to Harvard for his undergraduate degree, but then he ended up spending some time in the Navy. He visited parts of the world that were extremely poor in the 1950s and then went back to these places later on, and he saw improvements. And at the same time, he realized that the data that was available was not backing up the population apocalypse scenario. Things were actually improving over time.

And one day, he sort of realized or remembered a sermon that he had heard a few years before saying that what a catastrophe Iwo Jima or wars in general are, because think of all the Michaelangelos or Einsteins that are not being born. And it was kind of his road to Damascus moment. And this occurred the year after the *Population Bomb* was published, and he realized, what am I doing? I mean, the data doesn't back this up. I'm actually preventing productive human brains to be born. And so with the zeal of a convert in the early 1970s, he began collecting a number of facts and data that eventually culminated in an earlier scientific book in 1977, but then in 1980, something called *The Ultimate Resource*, where all the data that he had gathered was sort of made accessible to a broad audience.

And the problem, though, is that no one was listening to him, and he would see Ehrlich on Carson, and he would just go nuts, knowing that all this was wrong. And he was like, well, how can I draw anyone's attention to what I'm saying or to the real facts or what have you? And so, remember that Simon was someone with a marketing background, but he was also a serious poker player.

And so he came up with this strategy, this sort of offer that Ehrlich couldn't refuse by saying okay, put up or shut up. Select any resource that you believe we will run out of, the only condition being they're not controlled by governments, but that they're being traded in a free market, and any period of more than a year. And if you're right, if the apocalypse is really coming, well, as scarce resources are nonrenewable, well, their price will increase, because as the number of mouths increases and as demand for these resources increases, their prices will go up. But then if I'm right and look at the historical data and things tend to become actually more affordable or more plentiful overtime, then their prices will go down, so let's agree on a bet of \$10,000 and divide it in any which way you want among these resources, and after a period of time that, again, you have selected, then if the price has gone up, I'll pay you the difference, and if the price has gone down I will pay you the difference.

And so on September 29, 1980, Ehrlich along with two other of his regular collaborators, including your former science tsar in the White House, John Aldrin, selected five resources, copper, chrome, nickel, tin, and tungsten, for a period of ten years, and they bought \$2,000 worth of these commodities, fictitiously of course. And

they selected a period of ten years, which then takes us to the anniversary we're celebrating today, which is September 29, 1990, the closing date of that bet.

WOODS: Now, I wish I could have done this episode on September 29th, but September 29th was my 500th episode –

DESROCHERS: Oh, I apologize.

WOODS: – so this is Episode 501, but we're pretty darn close, and I'm sure in some time zone somewhere in the world, we're on the correct day. Now, let's talk about now – now of course, Ehrlich loses the bet, and he does actually pay an inflation-adjusted amount to Simon. He sends him a check, but neither he nor his defenders today will concede that this proves anything. As a matter of fact, if you read the Wikipedia entry on the Ehrlich-Simon bet, it basically takes that side too. It says, well, if you had chosen any other or a whole bunch of other possible ten-year periods, Ehrlich would have won the bet and Simon would have lost, and so on and so forth. And you've dealt with that in one of your articles that you sent me. By the way, of those articles that you sent me that you wrote, are you able to send me links to published versions, so that the listeners can read them?

DESROCHERS: Yes, they will be available on September 29th. They're coming out on the date of the anniversary.

WOODS: Oh, that's right. Okay, so I'm going to have them linked then at TomWoods.com/501. Okay, so tell me how you handle that objection, that Simon just got lucky; he just happened to pick a ten-year period that worked out for him, but there's no reason that that should prove anything.

DESROCHERS: Well, remember what I told you, which is that Simon was a serious poker player, and the way that I interpret his strategy is that he was looking for a bait that would be irresistible to someone like Ehrlich, even though the bet was not a perfect approximation of his ideas. And so he knew that commodity prices are cyclical and that, yes, there was a probability that he would lose, but he knew that history was on his side, that, you know – remember again that Ehrlich selected the five commodities that he thought were the most problematic over the time period that he deemed suitable for his ends. And so Simon had no control over that.

But the point is that if you read Simon's writing on the issue, he knew from the beginning that commodity prices are not a perfect approximation of how to measure human progress, and he argues for relative prices really, meaning, for example, if you're an American worker in 1900 earning the average wage at the time, how long would you need to work to buy, let's say, a pound of butter or a gallon of milk or something like that. And so if you look at the data in this perspective, well, the average American worker in the early 20th century had to work something like close to an hour to buy a dozen oranges or a gallon of milk or something like that. And if you look at how things improve over time, then today he needs to work only about 10 or 12 minutes. So there's been significant progress when you measure things that way. So

that's really how he should have framed this bet, but he knew that you could not explain that concept to a broad audience and that Ehrlich probably would not have taken the bait. And the other way you measure things is how much we extract out of a given resource.

So for example, today we get a lot more out of a barrel of petroleum than we did a century ago. We get almost twice as much value out of a petroleum barrel today than was the case a few decades ago. And so if you look at things that way, then you cannot deny that commodities have actually become a lot more affordable over time.

The problem when you look at the bet – and some people are right. Sometimes Simon would have lost; sometimes he would have won. But Simon always argued, well, you need to argue at the longest time period possible for which you have data, and you can see that the trend is clearly on his side. So yes, there are things like the oil shocks of the 1970s. You can have a boom, something like a cellphone comes along, and suddenly resources are more valuable than in the past. But then what happens is that these price spikes are always temporary, because in a market economy, when prices go up, people look for more of the resource, they use it more efficiently, they look for substitutes, and so in the medium and long run, prices will always decline, but you might have spikes in the short run. So yes, by using Ehrlich's criteria, yes, of course sometimes Simon would have lost. But if you look at the way these things should really be measured, then Simon would have won all the time.

WOODS: What were the five – I'm sorry, my adult, middle-aged brain can't remember if we've covered the five things that they were specifically betting on.

DESROCHERS: Yes, so copper, chrome, nickel, tin, and tungsten. And so look at copper, for example. What is it used for in the early 1970s? Well, mostly to move electricity around, so it's still with us in that respect. But also it's used a lot in plumbing, in terms of pipes and things like that, which today of course are made mostly out of either plastic or composite material. And it's used a lot also – and I don't know if your younger listeners will be able to relate to that, but phones. Phone lines, when we had landlines and rotary lines, the way all these phones were connected together was through copper wiring. And of course today we don't use that, and to the extent that phones are connected, it's with fiber optic cables that are made out of sand. And so copper, for those reasons, in the 1970s came down. And some of those other materials were used in light bulbs, and then better substitutes came along. And so even though between 1980 and 1990, which is the time period covered by the bet, the world population increased by 800 million people, and a lot of people became wealthier in the process, and more stuff was produced and consumed, the price of those resources came down.

And again, remember that Simon told Ehrlich, you know, select any commodity you want. And Ehrlich did ask specialists and those things. It's not something that he picked by himself. He went around and he asked mineral resource specialists, okay, what are the five most problematic things I can find. And so even the specialists he consulted were not able to anticipate that, which is again typical of the history of

resource development. People used to believe in peak oil until not too long ago, and you had geologists and that crowd who had worked for decades in the industry, never saw fracking coming, which has driven down the natural gas and petroleum prices today. And so Simon bet on human creativity in general, and he was proven right.

WOODS: Okay, human creativity, what you hit on just there is very important to what I want to ask you right now. I think the average person would be inclined to accept Ehrlich's version of events, that things are going to get scarcer, we have more people using them up, their prices are going to go up to reflect the scarcity. And you would think that that would be the likely outcome, and yet when, inflation adjusted, the prices go down, this seems like it demands explanation. So what is the explanation?

DESROCHERS: Well, the explanation is, yes, we live on a planet that is limited in terms of its mass. So, you know, we walk every day on all sorts of stuff in the ground around us. There are only so many trees around us, and it is very counterintuitive to think that the more people you have, the wealthier you become, the pie should be getting smaller. I mean, people keep consuming it, and at some point we're going to run out of things. But what people typically don't get, and I don't blame most people for thinking that way, but for people like Ehrlich, who's written about that for decades, this has come to be inexcusable in my opinion, is that ultimately the stuff that is around us only becomes resources through the intervention of human brains and human ends.

And so for example, if you were a farmer in the American Midwest, let's say western Pennsylvania, in the 1840s, the worst thing that could happen to you was to find that gooey stuff oozing out of the ground – you know, petroleum. It would contaminate your water, it would make your cows sick, and you really didn't want that stuff there. But then at the same time, to the extent that people could afford a decent source of light in the American countryside, it was made out of whale blubber. So whale fat, you could extract an oil out of that that was brighter and emitted less smoke and was less smelly than, let's say, oil made out of pork lard or something like that. But then people realized that at first they could extract substitute whale oil from coal and even other substances that were not valuable. But eventually it dawned upon them that petroleum, that stuff that nobody wanted, was really the best way to create a substitute for whale oil, so resources were suddenly expanded. Something that was just physical stuff, worthless, valueless, was through human action converted into something that was valuable.

And so everything that is around us today – I don't know where you sit, but I'm sure that you're surrounded by petroleum-derived products around you, not only where you sit and the equipment that you're using at the moment, but perhaps also your carpet and your windows and all sorts of other things. And so what ultimately happens is that the ultimate resource, as Simon used to call it, is the human brain, which is able to convert physical, useless stuff into new technologies. And as more brains are born, as more humans are brought into the division of labor, we can build on previous ideas and combine them with ideas of our own. And because new ideas are essentially the results of combining existing ideas in new ways, the amount of stuff that we can

create is almost infinite, because we can keep adding ideas to the physical stuff that surrounds us.

So for example, I was mentioning fracking before, which is I believe something that all of your listeners can relate to. Well, everybody knew that there was shale in the ground. Everybody knew that there was valuable stuff trapped in there, but nobody knew how to get it out profitably. And then you had people like George Mitchell, an entrepreneur in Texas, and others, who invested a significant amount of resources and were able to unlock that valuable stuff out of what was previously worthless. And so yes, the resource was in the ground, but it was not a resource; it was just stuff. And through markets and through human creativity, Americans – and for this is a Canadian I've got to give you credit – Americans were able to sort of extend what we now call the fossil fuel age for maybe a century or two or three through advances over what existed before by combining the knowledge that there was something potentially valuable there with technologies that were developed for other ends. Entrepreneurs and engineers and technicians were able to create resources out of stuff, and this happens in any field of human activity.

WOODS: I still can't help asking you what I asked Robert Bryce once, which is that some people will hear what you're saying and say that it sounds kind of like somebody who jumps off the Empire State Building and assures everybody that everything's just fine, because the free market and human creativity will develop a parachute for him before he hits the ground. Why is that not what Julian Simon is saying?

DESROCHERS: Well, Simon is not saying that everything will always be fine. If you look at some human societies, like for example, the Soviet Union, people became poorer and their environment became more polluted over time, but that's because there was no incentive to tap human creativity and you had a number of problems in centrally planned economies, and you've told your listeners many times about that. So Simon was not denying that sometimes things can go wrong, but he also argued that you need to learn from the past. And for the past 200 years, and Simon was the first to admit that, he was only restating and synthesizing and sort of pushing forward things that had been said before him for a long time.

And so for example, Thomas Robert Malthus, who was a famous doomsayer from the late 18th, early 19th century, was actually reacting to people who were more optimistic, like the Simons of their day. And there was an anarchist, William Godwin, there was somebody who was more of a classical liberal, called – well, let's just say he would be someone that we would say as being on our side of the debate today. And so for 200 years, optimistic people who have argued that the human brain, within the context of the proper incentives and institutions, will find a way around scarcity have been right. And people like Ehrlich and Malthus before him have been proven wrong.

And it's not that we're jumping out of a window; it's that you need to understand how the human brain works and how new ideas come about. And once you understand that new ideas are created from the combination of previously existing ideas, the number of ideas that we can have increases exponentially. So as soon as you understand that,

the analogy that we're still falling off of a building and we haven't hit the floor yet just doesn't hold, because ultimately, again, resources are created out of new ideas. New ideas are created out of a combination of previously existing ideas. The more ideas you have, the more new ideas you can have, and the more ideas you create, the more new ideas you can have.

So this is why for 200 years, people like Simon have been right, and this is why for 200 years, people like Ehrlich who have said we're about to hit the floor have been wrong. That's because in the end, Ehrlich is a biologist and does not understand that humans are not like other animals. So yes, you have animals like beavers, who can, let's say, combine logs and mud and create a dam, but that's all they do. And the evolutionary capacity that humans have created is this capacity to create new stuff, the combine existing things in new ways, which you don't see in the rest of the animal kingdom. But biologists like Ehrlich have never really wanted to understand the market, does not understand what makes humans different than, you know, his beloved snakes or butterflies, and if he was willing to do that, then he would have to admit that humans are different, and therefore that his analogy doesn't work.

WOODS: Well, Pierre, this was a great conversation, because not only does it illustrate a lot of principles, but it recalls a really great and interesting incident that's of importance to libertarians, but as I say, that I think a lot of listeners will either be unaware of or too young to know about, and it has a very important libertarian lesson in it, good economic lesson. And your work that you've been doing on this is just tremendous, so I'm going to be linking to a couple of your pieces at TomWoods.com/501 for people who would like to learn more about the subject. Thanks so much for being with us today.

DESROCHERS: My pleasure.