



Episode 577: Where Should You Put Your Money? The Answer May Surprise You

Guest: Mark Skousen

WOODS: I don't think I'm revealing anything that is not publicly known, but I'm very glad to say that you were in attendance at the debate on Alexander Hamilton between Michael Malice and me, and we had a nice dinner beforehand, and I thought, how can I be on Episode 570-something and I have never had Mark Skousen on the show. It's just an outrage. So this is Episode 577 today, and on the show notes page for today, which will be TomWoods.com/577, I am going to link to – it's just going to be a Mark Skousen smorgasbord of links and books and things to get people up to speed on what you've been doing.

I want to talk first about an issue in the financial news – it's maybe a couple of years old now, but it's very important – that you in way kind of had an intellectual hand in. The Bureau of Economic Analysis, which is a government agency, BEA.gov, actually now reports a statistic that in your view more fully describes the economy than just simply GDP figures. Can you tell us about that?

SKOUSEN: Yeah, so it's called gross output or GO, and the way I look at it is it goes beyond GDP, because GDP is the major, that since the 1940s the government, which is the BEA, the Bureau of Economic Analysis, as part of the U.S. Commerce Department, and they are the ones who put out the quarterly GDP statistics. And I've always felt that GDP was a very narrow definition of the economy. It's basically a measure of all the finished goods and services, the value of final goods and services, and it leaves out the entire supply chain that creates these goods. It's not unlike an analyst on Wall Street saying, well, let's just go to the bottom line; let's just look at profits, and we'll ignore sales, which is what created the profits in the first place.

WOODS: (laughing) Right.

SKOUSEN: And you know, you go back a long ways, all the way back to Irving Fisher, who talked about in the equation of exchange, how you need to measure the volume of transactions in the economy, and Hayek, who in his book *Prices and Production* said we need to measure the Hayek triangle, the whole structure of production, all the stages of production, the supply chain as well as the final product. So my idea is to put, with my book *The Structure of Production*, in 1990 I came up with the idea of gross output as an actual measure, and I started trying to estimate the measure, and so forth. And I found out a number of things. Number one, it's almost double, if not

double, what GDP is, and it's also much more volatile, as you would expect. In the earlier stages of production, the supply chain is much more volatile than final output.

And so I kept pestering the BEA; I said, you know, you really should have a measure of what we call top line national income accounting and not just bottom line, bottom line meaning final output. We need a top line. I'm using the terms that are often used on Wall Street, where they talk about top line revenues and bottom line earnings. The same thing applies to national income accounting. So you need a top line to measure spending at all stages of production, and starting in April 2014, they started measuring it.

So I consider it a tremendous triumph. Imagine, you look at all the very few triumphs that Austrian economics and supply-side economics has had over the last 40 or 450 years, and this has to be one of them, that GO, that comes out quarterly now, gross output by the BEA, is in essence a measure of Hayek's triangle. So I'm really delighted that this is the case, and frankly I think we ought to have a big party celebrating this in honor of Hayek, because as you know, Hayek's macroeconomics and *Prices and Production* has been poo-pooed over the years by the Chicago school, by the Friedman groups, and others, and I think it's time that we bring it out.

And I'm doing everything I can. I just had an article in the APEE journal, *The Journal of Private Enterprise* that APEE points out, called "Linking Austrian Economics to Keynesian Economics," because in essence, gross output is an Austrian, a supply-side measure of total economic activity in the production process, and GDP is more or less a Keynesian concept, because Keynes always emphasized that final effective demand was more important, was the most important side of it. So in essence, I'm not saying throw out GDP. Keep it. It's part of the program as representing final output, but you need a measure of spending at all stages of production and how you get there.

And to my delight, not only is the BEA publishing this every quarter, but it's now being integrated into the textbooks. I just got an email from Roger LeRoy Miller; he's putting it in *Economics Today*, his top textbook, and McConnell Brue that is being written by Sean Flynn, who, by the way, is running for Congress this year as a Republican. But he's the main writer of the McConnell Brue textbook, and he and I are working together to write Chapter 21 of his textbook, which I understand is still the number one textbook in the country. So it's all going to be in these textbooks, and it's a huge triumph. I think we really need to celebrate this tremendous breakthrough.

And this weekend, by the way, the BEA is coming out with its latest gross output statistics. I'll be very interested to see if there's any evidence of the slowdown in the economy that's precipitating this stock market correction or bear market or whatever you want to call it that's going on right now.

WOODS: Let me say a couple things about what you just said. First of all, not everybody knows APEE as an acronym, so I'll tell everybody. It's the Association of Private Enterprise Education. And the other thing is, just to make sure people get it, I think you explained very well why what we have with GO is a very Hayekian/Austrian

kind of statistic, but when we're dealing with GDP, this is a very Keynesian statistic, and the key thing here is that by leaving out all these intermediate stages of production, all the gross saving that goes in just to maintain the capital structure. And all these stages that wouldn't get counted in just simply looking at the final product and the final sale, this allows Keynesians to exaggerate the extent to which consumption is at the basis of the economy, because they leave out all this other spending by businesses, and they say, look, most of it is consumption spending. But actually, no. You look at it, and actually there's vastly more business spending than people realize, because we're excluding it from the official numbers. Am I getting the gist of it?

SKOUSEN: Absolutely. This is what got me started on creating this gross output statistic in the first place, because I knew that the media and the journalists were constantly being misled by the way we explain that GDP is somehow "the economy," that it represents all the economy. And when you realize that it leaves out most B2B activity, business to business spending, it leaves out the supply chain that brings about the economy. That's where most of the business spending is. Economists are constantly focusing just on capital investment and capital goods, which only represents about 18% of the economy, and they leave out all the spending, like you say, the gross saving, that is used to provide the funds to move the production process along.

And it's huge. The business spending amounts to like \$25 trillion, while consumer spending is only about, like, \$13 trillion. So business spending is almost double what consumer spending is, so I cringe any time I see in an AP article or a Wall Street anyone saying that consumer spending drives the economy and retail sales or something, this is the most stable area of the economy. If you look at charts on consumer spending, it hardly ever dips. It just kind of gradually moves up. It's business spending that is volatile and that's a much bigger sector of the economy. And it's not just double counting, because that's one of the criticisms I get. Well, double counting counts, because businesses actually writing checks to pay to move this production process along. You can't make — your business success cannot be dependent solely on profits. You need money to pay for the entire expenditures of rent and the supplies and employees and all that sort of thing. You can't run a business based solely on the bottom line. It needs to cover the entire expenditures.

WOODS: And of course it's only double counting depending on what it is you're trying to count. If all you're trying to count is final sales, then it would be double counting. But if you are interested in a deeper understanding of the economy or, on a firm-by-firm basis, interested in what you're spending your money on, it's not double counting, and it has to be done. Now, I have to talk to you — I want to spend the balance of our time on a subject on which you — this is interesting. I mean, you are an outlier among outliers, which almost makes you mainstream. Like, I don't even know how that works out ultimately. But you are an Austrian investor. You've been a publisher of investment newsletters for I guess over 35 years now, and in addition to your many books, you do a lot of commentary on investing and a lot of teaching on investing.

And you would argue that Austrian school insights have guided you in the way you've done investing and the way you've taught it, but you have dissented from what you've considered to be some of the doom and gloom type of talk that we hear from a lot of Austrian-influenced investors, who will say things like I don't want to be in the stock market, because we all know it's a Fed bubble. And I remember when I saw you in New York, you saying to me the trouble with that is, even though we know there's artificial activity going on from the Fed, you're going to miss a lot of bull markets if that's your attitude. So I'm very, very interested in this. What is your corrective to this type of narrative coming from a lot of, let's just say, other newsletter writers?

SKOUSEN: Yeah, and it's true, I am a bit of an outlier, and it really developed in the early 1980s when I was at the New Orleans Conference, which is a conference of goldbugs and doomsdayers and so forth. In fact, I just returned from the New Orleans Conference, and I can't tell you how many people came up to me and said my portfolio's down 70%.

WOODS: Oh.

SKOUSEN: And I said, how can that be. And he said, well, I kept coming to the New Orleans Conference, and I went to the exhibitors, and they were telling me a great story about their mining company. It turned out to be these penny stocks, and they'd just been devastated. Gold is down sharply over the last five years. And these mining stocks, they're there to double down. They just couldn't realize that they had made that kind of a serious mistake and didn't use stop orders or any kind of discipline to protect themselves.

So it kind of made me angry that they had been listening only to one side of the market, the doomsday market, going back to early 1980s, when Ronald Reagan was elected in 1980, the New Orleans Conference had like 5,000 people there. I mean, it was the biggest turnout they'd ever had, and I was shocked at how many people were poo-pooing Reagan and so on, saying he won't make any difference and that sort of thing. And there were these doomsday goldbugs, and I recognized almost right away that there'd been a sea change, that gold and silver were not going to be the great investments of the future, but the traditional stock and bond markets were. And I turned out to be right. I mean, nobody really believed me particularly, but I was kind of — I became a little bit of a disfellowship, if you will, from the hard money movement at that time.

So in my experience — and you're right; I'm teaching at Chapman University right now, which is in Southern California. It's a great school that Vernon Smith, the free market economist, the Nobel Prize-winning economist of experimental economics, he's here, and there's a number of other free market people here at Chapman. And I'm teaching financial economics this spring, and I'm really looking forward to our discussion, but my general view is that in the Austrian theory of the business cycle, I think the Austrians often forget the boom phase of the business cycle. They just focus on the bust.

The reason they focus on the bust is because, as Mises and Hayek pointed out, most of the time the expansion phase of the business cycle is somewhat artificial. The Fed has induced easy money policies; it's lowered interest rates, not let the market work properly. And so they always fear that any time in the back of their mind, the stock market could just collapse. And in fact, that's kind of like what it's been doing over the last couple of weeks, and so they're in their heyday now, and they're coming out of the woodwork with their predictions. And they're not just predicting a bear market; they're predicting a total collapse of Western civilization. They're very apocalyptic in their approach. They're seeing a financial armageddon.

I personally call it a little bit what I would call financial terrorism by these people, and it's a very dangerous thing, because they affect in particular retirees, and retirees do have anxiety concerns. I listen to these people. These people contact me, and they're very upset, and they're getting out of the market, and they're buying gold. And maybe now's a good time to buy gold, but should you put all your money in gold, all your money in gold stocks? I think that's very imprudent, especially when, historically over the last 100 years, two out of every three days of stock market — on average, 2/3 of the time — stocks are going up, not going down.

So I'm going to be that — I know I've gone on a little bit long, but there's two arguments that I make that I think are underappreciated by the Austrian bears and doomsdayers. One is they underestimate the federal government, the Federal Reserve's ability to inject liquidity and stabilize the financial crisis. That's number one. They've been doing it for 50 years now and gotten away with it. Even 2008, where everybody thought, oh, this is the end, and yet they were able to somehow pull it off. And number two is they underestimate the private sector, major corporations' ability to fix their balance sheets, to become more conservative, to build a cash position, to cut costs, and then start to look like they can weather this next storm a lot better than the Cassandras predict.

WOODS: Let me run a strategy by you, and I am — to say I'm — I'm not even a novice. I've actually read some of your books. I've actually read *Investing in One Lesson* that you wrote, and I do want to talk about *A Viennese Waltz Down Wall Street* — that's the book I mentioned as I was introducing you. I want to mention that a little bit more specifically in a minute.

But this is a strategy that I've heard that's based on the idea that it could be that the stock market could yield you really, really solid returns year in and year out, but that all of a sudden, you can get tremendous volatility, and as you say, you can get a case of somebody who invests it unwisely and who takes a very, very severe hit to his portfolio. Now maybe, rather than expose myself to that possibility, because who knows where I am in the business cycle at a particular moment, maybe I'm going to start investing at exactly the wrong time, maybe it would be better, in preparing for my retirement to build up income streams that are not reliant on the stock market.

I know one strategy, for instance, is to buy single-family homes and rent them out and use the rent to pay off the mortgage, and then by the time you retire, they're paid off

and they're generating an income stream, and it doesn't matter where the S&P is; you're getting a nice income stream. And then meanwhile, you have some precious metals just as a hedge of one kind or another, and now I'm not exposed to the volatility of the stock market. I may be missing out on really big gains, but I'm also missing out on really big losses. Anything wrong with that?

SKOUSEN: I think for some people that's a good strategy. Number one, you should view gold and silver purchases as an insurance, as a hedge, and that means no more than 10% of your portfolio. So that's number one. And number two is, listen, John Schaub is a —

WOODS: That's the guy I was thinking of, yeah.

SKOUSEN: Yeah, he's one of those guys who believes in buying single-family homes, and he's been doing it over the years, and he's been really good at it. Now, the key there is he gets really good renters who stick with him through thick and thin. That's really important, because I've been in the rental housing business, and my experience has been very checkered with people who you think are very reliable, and then they stop paying their rent. And how do you deal with that? It's not as simple as you'd think in terms of — I mean, it's a full time business, and people need to understand that it's a lot of work.

I do a comparison — here's another alternative, and that's to invest in real estate investment trusts in the stock market that pay a very generous dividend. Many of them have paid a rising dividend. Let me just give you an example. I've been recommending Omega Healthcare Investors, which is a publicly traded company. It's one of the largest nursing home real estate investment trusts that invests and manages properties that are assisted living nursing homes. They've increased their dividend 15 times in a row, 15 quarters in a row. They just raised their dividend last month. Now, the stock can go up and down. It was actually down a little bit last year, but meanwhile you continue to get this investment income coming in, and you have total liquidity. I mean, when you have real estate and you have to sell your real estate for whatever reason — maybe you have an emergency and so on — there's a downside to that. There's a lot of risk involved in the liquidity problem that you don't have most of the time with the stock market.

So there's pros and cons on all of these types of things. What I try to do in the stock market is recommend quality companies who pay an above average dividend and who have a rising dividend policy, and that has served me pretty well over the years. I think I've done pretty well with my subscribers by using that approach.

WOODS: Can I keep you a little longer than I said I would? Is that okay?

SKOUSEN: Yeah, sure. That'd be fine.

WOODS: I've got to ask you a few more things. All right, let me first pause for a quick message.

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All right, I guess the next thing I want to ask you is about forecasting. And maybe it's a two-part question. Yeah, I think it is a two-part question. Number one, sometimes economists get asked the question, if you know so much about the economy, why aren't you a millionaire, because they think that understanding supply and demand means you can read the markets, and it seems to me those are two entirely different things. Secondly, can economists forecast, and how do they forecast? You think you can manage that in a couple of minutes (laughing)?

SKOUSEN: (laughing) It's a very tough business. Even Ludwig von Mises said that it was very difficult. I mean, he was basically a nihilist when it came to predicting things, especially with the stock market. However, he is famous for having predicted the '29 crash. The only problem is that he got out very early. He recommended selling all stocks I believe in like 1924 or something, six years before the stock market actually tanked and the economy collapsed, so he was a bit early. And Hayek, same kind of thing. They built their reputation on predicting this great depression that the establishment failed to do. But both of them were what we call "permabears." Both Hayek and Mises were very pessimistic about the future of freedom, even after — Hayek was even pessimistic with Thatcher and Reagan getting elected. So I think they were tainted by their own history of the early 20th century, of two World Wars and the Great Depression in between.

I think it is possible, and I think it's an obligation for economists to know the signs of the times, to recognize trouble when it comes. A valuable forecaster is really beneficial to predict what's happening. In my book *A Viennese Waltz Down Wall Street*, I identify, for example, the inverted yield curve. The yield curve is kind of an Austrian concept of short-term versus long-term interest rates, and when you get a short-term credit crunch where short-term rates are rising faster than the long-term rates, that can be a sign of a recession in the long-term. So I've used that effectively in the past. Right now we have a positive yield curve, even with the Fed raising rates, so I'm kind of of the opinion that this latest collapse or bear market, if you will, will be relatively short lived and that we'll start to see a bit of a recovery. I don't see it exactly like 2008. In 2008, almost everybody was hurt by the collapse in real estate prices. There were a few who could benefit from buying, but most people were really hurt by it.

In the case of this oil collapse, yes, oil companies, energy companies are largely hurt by this sort of thing, but the rest of the businesses, the rest of the consumers, they're benefitting substantially by these lower rates, and you could see an economic recovery just from those. I mean, look at the success of UPS and FedEx and the airlines and so on because of the collapsing oil and fuel prices. So that's why I think I'm a little bit more optimistic by saying I don't think this is going to be a repeat of 2008. But at the same time, you can't ignore the fact that you have this new technology of the fracking and so forth going on, but at the same time you have this zero interest rate policy, which I think overly encouraged everybody to invest in oil and gas. So there are some elements that are similar to 2008 and the late 1990s. I just don't know how deep it's

going to go, and I do know that once we recover from it we could have another expansion and recovery phase.

WOODS: A couple more quick things. First thing is I get asked once in a while about my opinion on the idea of the Kondratiev wave —

SKOUSEN: Yes.

WOODS: — and I see that you wrote a little bit about that in your book. Can you explain what that is and whether it's valid or not?

SKOUSEN: Well, the Kondratiev wave was based on a Russian economist, Kondratiev, who predicted that capitalism goes through long waves of ups and downs that last 50 to 60 years. And because he was banished by Stalin and eventually went to the Gulag and was killed, he's viewed as a hero, and he must be right because Stalin censored him. But the problem is that these kinds of cycles are based on human action. I go back to Mises. And so while we may forget history and we are doomed to repeat history — history is never completely — we never go back to the cycle over again. It's just not that repeatable. They may rhyme. There may be some similarities in human behavior that suggest that we can engage in exuberance and we can get depressed, and so the markets can be extremely volatile and that sort of thing, but there's no evidence that there's a 50 or 60-year cycle that we must follow, like we have our genetic makeup that it goes through that. There's really no evidence of that. So in *A Viennese Waltz Down Wall Street*, I really joined with Murray Rothbard there in criticizing the Kondratiev cycle as an example of bad economics.

WOODS: All right, I guess I can't have a conversation — I appreciate that, by the way. That is what I wanted to know. I can't have a full conversation on investing without people writing to me understandably, saying why didn't you ask, what should I, the average — you must get this all the time: I'm the average Joe. I don't have \$10 million to throw around. I have a small amount of money, and I don't know what to do with it. Should I keep it in cash to be safe? Should I try to diversify? What does the average Joe do, and how does he know?

SKOUSEN: Well, the self-serving answer would be to subscribe to my newsletter, but —

WOODS: (laughing) Yeah, which is a fine answer. There's nothing wrong with that answer.

SKOUSEN: Well, I've been writing my newsletter for 36 years, and I think I've done a pretty good job, and I'm pretty conservative in my approach. I give people choices of individual stocks, mutual funds; I recommend gold and silver coins and so forth. It's a well diversified portfolio. On the individual stocks, I try to stay with companies that are making money, have good guidance, that are forward looking in a growing sector, like Omega Healthcare that I mentioned before is in the healthcare area and it's in nursing homes and people are living longer and it's an aging population, and this is a company that pays a very generous dividend every quarter, and it's been increasing.

So those are the kinds of investments that I think — what I call the SWAN investments, Sleep Well At Night investments, because the money keeps coming in, and while the stock may go up and down, it's not going to really turn bad on you just because — I mean, every once in a while you're going to have a bear market, but the overall trend is it's going to do well.

In fact, this is a very interesting example: Warren Buffet. Warren Buffet's fund Berkshire Hathaway has lost 50% of its value four times since its existence, since 1965. That means that Warren Buffet has lost 50% of his net worth for times during his lifetime, and yet today, by staying with it he's the wealthiest investor in the world. So I think if people realize that — I have another wonderful book out that I've sold tons of copies of called *The Maximums of Wall Street*, and there's some really good advice there. Like Steve Forbes once said everybody is a disciplined, long-term investor until the market goes down, and that is so often the case, that people just can't hold on. So what I try to do is educate people and encourage them to be educated, select good companies that are making money, that are paying dividends, and are increasing their dividends, and if you do that, in the long term you're going to be quite wealthy.

WOODS: I will link to — is it still *Forecasts & Strategies*?

SKOUSEN: Yeah, and if people just go to MarkSkousen.com, they can see information about my newsletter, and then I also have a person website called MSkousen.com, which tells more about gross output and some of my work in the economics field.

WOODS: Ah, I didn't know that. I see it in the notes now, but I didn't realize you had the two sites. All right, we'll link to both of those at TomWoods.com/577. Before I let you go, and of course I would like to talk to you for another five hours about this stuff, but tell us about FreedomFest, because you are the mover behind FreedomFest, the event every year in Las Vegas. Tell us about that, because of course there's another one coming this year, as always.

SKOUSEN: Yes, we do it every year. My idea is to organize the forces of liberty and come together physically once a year where we can learn from each other, network, socialize, and celebrate liberty or what's left of it. So we had 2,500 people there this last year. We even had Donald Trump there, who was quite controversial. He's certainly no libertarian, but we believe in having an open mind and hear what others have to say. But we also had John Mackey and Steve Forbes, and we had Paul Krugman debate Steve Moore; that was really a lot of fun. We had lots of debates, and we have an investment conference; we have a film festival.

If people just go to FreedomFest.com, they'll be delighted with all of our speakers. We're bringing in George Foreman this year, the heavyweight champion of the world who fought Ali, and he's also a very successful entrepreneur with the Foreman Grill, which he sold for \$138 million, so he's coming. We have Judge Andrew Napolitano coming. We have Grover Norquist doing his Wednesday meeting there. We have Richard Fink, who was Charles Koch's right-hand man for 40 years. He's giving the first public speech he's given in 40 years at this year's FreedomFest.

So it's pretty exciting, and our early bird special is still in place until January 31st, so now's the time to sign up and come join us. It's just — you cannot — I mean, David Boaz was telling me the other day — from Cato Institute — he can't believe how many people that he had met that were old friends, and he didn't know they were there. And it's just one big party. It's really fun. So it's July 13th through the 16th. We take over the entire Planet Hollywood hotel in Las Vegas, and if people just go to FreedomFest.com, that'll give them all the details.

WOODS: I will say that I've been at FreedomFest a couple of times, spoken there a couple of times, and it was a tremendous experience both times, and C-SPAN is there —

SKOUSEN: Oh yeah.

WOODS: — and they cover a lot of the major talks, so I got on C-SPAN twice just from FreedomFest alone — actually, three times, because then Book TV was there another year, and I did an interview with them, and I ended up seeing one of the C-SPAN people at the craps table actually later that night. You know, we were just like regular people at that point. But it was tremendous. And Bob Murphy's spoken there several times. A lot of people that you would know from listening to my show.

SKOUSEN: Yeah, and we got Stossel. Stossel does his show there every year, and we have Kennedy from Fox Business, and there's just all kinds of people coming that's just great. So it's a fun conference. Everybody loves it. It's created a lot of buzz. I hope to see a lot of you there, and I'd love to have you come back.

WOODS: I would love to make that work one of these years. Right now I've got the five girls, and it's —

SKOUSEN: Yeah, I know —

WOODS: I'm really, really minimizing my travel.

SKOUSEN: That's great (laughing).

WOODS: Yeah. Yeah, I mean in the long run, people are gonna be glad that I stayed home, because I'll produce these five wonderful people, you know, who are going to do a lot of great things in the world. But in the meantime, there are so many things I want to link people to. FreedomFest.com, MarkSkousen.com, MSkousen.com. I'll just put all of it at TomWoods.com/577. Mark, you've been very generous with your time. I'm going to let you get going. Thanks so much for being with me today.

SKOUSEN: Okay, thank you, Tom.