



Episode 686: We Don't Need the Fed, a Central Planning Agency

Guest: John Tamny

WOODS: This book, *Who Needs the Fed?*, I think — well, first of all, I'll tell you I really enjoyed reading this. There's one line in here I could have done without, but all right. But I really did enjoy reading it, because you really — I think you do a really good job of explaining what are complicated things, not only so that people can understand them, but you draw lessons out of ordinary life, and you draw lessons out of cultural life and out of pop culture so that anyone can get it. And I say that not because my audience needs to be spoon-fed, but that when they in turn are talking to other people, they can then refer to, well, Taylor Swift and people that other folks have heard of to illustrate their points. And it's not — a lot of times when people try to do this, John, it's contrived and awful. You know, it's just painful. But I've been sitting in bed the last few nights, actually just nodding my head, saying, hey, that actually worked; that was well done.

I would say, though, that in terms of your main economic statement that you're trying to make — let me see if I've got this right. I would say the most important takeaway you want people to get from this is to understand that credit is not some magical concept; it's not something that can be multiplied with the wave of a wand or the pressing of some computer keys, but credit really is access to real stuff. When you borrow money, it's not so you can roll around in it or gaze at your checking account balance; it's so that you can get resources. And the mere multiplication of checking account balances does not multiply the real stuff in the economy, and that's what we should be focused on. So what grade do I get?

TAMNY: You get an A, because that's exactly what I've been trying to convince people of. And as you can probably tell, this book is in many ways my tribute to Ludwig von Mises' *The Theory of Money and Credit*. I reread it to write this book, and I was reminded or I saw what I didn't see before what a brilliant book it is. And of course, in it he makes the point that people are not borrowing dollars; they are borrowing access to real resources. Credit is trucks, tractors, desks, chairs, computers, and most of all, labor. That can't be multiplied. We are the credit. If credit were something that government could create, then Haiti and Honduras would have as much as we have, but in fact, these resources flow to where people are productive and where they'll use them well.

WOODS: Let's get right into — I mean, you've got plenty of straight economics in here, but why not? Let's jump right into the stuff that anybody in the world would be familiar with. Let's go right to Chapter 1 and talk about Taylor Swift and her response to Apple when they were saying that, I guess, iTunes was going to give you, I don't know, some kind of a three-month freebie offer, and she stood up and said I'm going to defend all the musicians of the world. I want to know between that and the Uber cars that people took to get home from her concerts, what are some key economic lessons we can draw?

TAMNY: Well, the first thing is how interesting that Taylor Swift could stand up to the most powerful or the largest company in the world and force them to stand down. But her point was, okay, Apple Music is offering three months of streaming music for free, and she said, that's fine; I don't like it, but if you choose to do that, you will not be streaming *1989*, her most recent and major hit album. And so it's a reminder that in any transaction in the economy, there is a buyer and a seller. If you want to have music to stream, you must make the deal good to those who actually have the music so that you can please your customer.

And this is something that of course the Fed doesn't realize. It loves the ideas of borrowing and easy credit, but it ignores that for there to be easy borrowing, it must be fairly easy for savers to save. You have to love savers if you love borrowers, and the Fed acts as though savers don't exist.

WOODS: Now, what's the connection with Uber? Because you then say, a lot of people having to get home from these concerts are finding it tricky, and they're willing to pay surge pricing. They'll pay \$35 for a \$9 or \$10 ride if it means I get to get home at a reasonable hour and get in bed.

TAMNY: Yeah, well, my wife and her friends were at a Taylor Swift concert with 42,000 people leaving the concert afterwards. If you wanted to take the metro home, that was going to take several hours, well past midnight. Cabs are price controlled in Washington, D.C., so they were nowhere to be found. But Uber was everywhere. And so it interested me, the story, because an app, just this little app on our phones has exposed how backwards is the thinking of the 20,000+ economists at the Fed, because how does Uber serve its customers? It serves them by pleasing its drivers. It lets the price of its drivers float to a level that lures them on the road that makes it easy and good for them, makes it remunerative for them to be on the road when they're needed most, and that's how they serve the customers. My wife and her friends got home very quickly the night of the Taylor Swift concert, where it was realistically five years ago it would have taken them hours to get home.

And so it's another example of just how backwards the Fed's interest rate models are. They try to decree credit cheap. But when you do that, what you're saying is, hey, savers, you don't count. So paradoxically, Fed attempts to make credit cheap are making it expensive.

WOODS: Let's talk about your chapter on Hollywood and the availability of credit, the tightness of credit in Hollywood. I like in particular, by the way, the example of Robert Downey, Jr., but we'll get to that in a minute.

TAMNY: Well, the Hollywood chapter is I think very exciting in the sense that it's a reminder, while the Fed's off in Never Neverland decreeing easy credit, happily in the real economy the price of accessing economic resources actually reflects market realities the vast majority of the time. And so my main example in that chapter is of course Brian Grazer, easily one of the most talented movie producers in the history of Hollywood. We're talking *Splash*, *A Beautiful Mind*, *Parenthood*, *Apollo 13*. We're talking TV shows like *Arrested Development* and *24*. But as he points out, despite this amazing track record, he is turned down 90% of the time when he seeks credit to pursue his film and television projects, and that's a very happy story that in the real economy, most often we act as though the Fed doesn't exist.

WOODS: As I say, I like the Robert Downey, Jr. example, because we all know, as with any of these people, when they have personal problems the whole world finds out about them. But you talk about how it became hard for him to make movies because the costs involved were too steep, because he was unreliable and people didn't want to take a chance on him. And you say this lack of credit turned out to be a blessing for Downey. "The expensive credit that rendered Downey unemployed is what forced him to kick his various bad habits and clean up his life. No source of film finance [if he hadn't done that] was going to risk its talent on a talented actor who personified unreliability." And then you say, "No amount of Fed ease would have made it possible for Downey to work. His personal recession, whereby he fixed problems of his own making, is ultimately what freed up his access to credit. Credit had to become expensive for Downey so that it could become cheap." Wow, I thought that was great.

TAMNY: Well, thank you, and it's a reminder of what economists often forget and certainly those at the Fed, the recessions are incredibly healthy, because an economy is just a collection of individuals and as individuals we know we make mistakes. The recessions whereby we're not able to work or whereby we're not able to access resources to pursue what we want to do are what force us to change things. And so Robert Downey, as you point out, he could not get a movie made in Hollywood. He was so unreliable that no one would finance anything attached to Robert Downey, Jr., so it forced him to change his life, and now he is the highest paid actor in all of Hollywood, \$75 million a year.

And so you think once again how this applies to the Fed. The Fed, when the economy is "weakening" wants to feed resources to those that brought it to the weak point. Well, no, that's — you want credit to be tight during a recession to make sure that only the good companies get it and the bad ones are starved. The Fed's models are, once again, totally backwards.

WOODS: I want to go ahead to Chapter 8: "Why Senator Warren Buffett Would Be a Credit-Destroying Investor." You know, there's an obvious sense that Austrians use to talk about why it is that people who are good in business wouldn't necessarily be any

good in government: because it's two different things and you can't engage in the kind of economic profit and loss calculation in government that you could in the private sector because, among other things, you're not getting legitimate sales revenues, so you can't judge really where consumers want resources deployed. You have no way of knowing. You could come in and cut a lot of stuff; that's true, but just cutting stuff isn't necessarily good business either. You wouldn't do that in your business. You wouldn't just arbitrarily go cutting. So there's really now way for a businessman to do any good in government, because they're two different things. But you make rather a different point in the Warren Buffett chapter, so tell us why, even if — let's say even if Warren Buffett had good political views — I'll even correct this a little bit — even if we would agree with Warren Buffett politically, what would be some of the problems he'd run into if he were a U.S. senator trying to bring his wisdom into the U.S. government?

TAMNY: Well, you know, I'll say that even if Warren Buffett thought exactly as Tom Woods did, he would still be tragically bad at allocating resources from the Senate, and the reason why is fairly basic. There are no failures. With government spending, bad ideas are funded forever. Whereas in the free market, in Silicon Valley, just about every startup ever funded has failed. Buffett has to starve lousy portfolio companies of his all the time. That is how he is a successful investor. His failures very much inform his successes.

But you can't do that in Washington. For one, there's no incentive to, because you've got unlimited flow of dollars that will fund what makes no sense. But the other thing is we have to remember, once a government program is started, it creates constituencies. Everyone knows that. And so any attempt by Buffett to bring rationality to a government program to make it efficient, streamlined, all those things could not happen, simply because there are constituencies there, there are jobs related to it that would make that impossible. So if we look at credit as resources, which clearly you and I agree that's what it is, if Buffett were in the Senate, he would be allocating a lot of capital to potentially good ideas, but they would very quickly become inefficient credit destroyers.

WOODS: Joe, let me ask you a I guess sort of a personal and a professional question. How long have you been doing economic journalism and writing on these topics?

TAMNY: I've been doing it — well, I first wrote about it when I was at Goldman Sachs in 1998, but just surreptitiously for clients. I officially started writing for the public in 2003.

WOODS: Okay, well, the reason I ask is I'm curious to know if any of your views have evolved over time, in that, were you already in 1998 prepared to write a book called *Who Needs the Fed?* Or did something happen to change your mind?

TAMNY: Oh, I wasn't even close. I certainly believed a lot of these things, but I had to sit around and observe the world around me to understand it. I think one of the main areas, and it comes up in the book, is I used to be one of these people who loved tax cuts, and I still do love tax cuts. Taxes are a price. But I was one of those who said,

hey, you know, if we cut the tax rate and the economy grows, there's going to be lots of revenue. And I think history's fairly clear that that's happened quite a few times. But as I point out in the book, it's time for us to put the Laffer curve to bed, to just sign off it's one of the most disastrous concepts ever conceived, and I think Arthur Laffer would agree with it, because when government gets revenues, that's the problem. Programs start, and they never end.

And so you look at Medicare, as I describe in the book. It was a creation essentially of the Laffer curve. Revenue surged in the mid '60s. They funded Medicare at 3 billion. They said it'd be 12 billion by 1980. It was quite a bit higher; it will cost 1 trillion a year projected by the early 2020s. And so tax cuts, whereas I used to say, hey, great, you get the tax cut, plus the government gets revenues to waste; in fact, those revenues neuter the genius of tax cuts. So that's one area in which I've evolved quite a bit.

I'll also point out that I've evolved in terms of currency. I'm still for a stable currency, but von Mises in particular reminded me that we don't need government to create money. I think private sources would do a much better job. It took me a while to get to that point.

WOODS: Yeah, that Laffer curve stuff and your chapter on it, that's all good stuff for sure. I want to get into that a little bit more in a minute, and then maybe push back against you a little bit, but first before we do that, let's thank our sponsor.

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All right, that's very interesting. Yeah, I liked your Laffer curve chapter, and I'll just make sure everybody knows that the Laffer curve is this curve that — and I forget which is on the X axis and which is on the Y axis, but it's plotting revenues against tax rates, the idea being that eventually you reach the so-called prohibitive range where the tax rate is so high that it actually leads to lower revenue because people are avoiding it or sheltering their income or not working or whatever. And so his point was that everybody, everybody, Left and Right, would want to lower tax rates at that point. And you've noted that even people you would think to be free market people have been using as a selling point the fact that, hey, this particular tax cut brought in more revenue than anybody expected. Well, yeah, that's an unfortunate side effect of the tax cut; it's not a selling point.

TAMNY: Yes.

WOODS: It's a big, not a feature, if I can reverse the common saying. All right, before we get to — because you've got chapters: "Do We Really Need the Fed?" I do want to get to your chapter, "The Fed Has a Theory and It's 100% Bogus." I mean, how can we not talk about that? You have chapters on quantitative easing. I mean, again, things that'll get people up and running really quickly on these sorts of topics that you have to know a little something about if you're going to have an intelligent discussion. But

before we do that, look, I'm going to push back a little bit on fractional reserve banking. Where would be the fun if I didn't —

TAMNY: (laughing)

WOODS: — because in here you say that it's unfortunate and tricky to understand how so many otherwise brilliant people in the Austrian school have a problem with fractional reserve banking. Well, if I exist for any reason, if I'm on this Earth for any reason, John, it's to explain. It's to explain and clarify, and that's what I'm going to do here. I'm going to try to explain.

It's not primarily — and of course, fractional reserve banking — again, I don't want to take anything for granted — is the practice whereby the bank will take in so-called demand deposits. You'll open up a checking account for, let's say, \$1,000, and the bank will go and lend out a portion of that money, even though it's called a "demand deposit," which means you have the right to go and have access to it on demand. So they're keeping in reserve only a fraction of what you've deposited; hence, fractional reserve banking.

So what's the issue with it? The primary issue the Austrians have is not the fraudulent argument, that fractional reserve banking is fraud. It's true that Rothbard placed a lot of emphasis on that, but modern Austrians today are not really talking about that. The main conversation in the Austrian school is over monetary disequilibrium theory and the claim that some pro-fractional reserve banking people make that the creation of the money by the banks can smooth out various problems and help with deflation and so on and on.

And our argument, basically, is severalfold here. First, when the banks create money out of thin air — which is what they're doing when they're engaged in fractional reserve banking; they create fiduciary media, as Mises describes it, money that's unbacked by anything that's just created out of thin air, this adds to the amount of funds. And so as a result, banks have to lower interest rates to entice businesses to borrow more at the lower rate. That's just Economics 101. And that introduces disequilibrium into the economy, because now you have exactly what John Tamny does not want. Now you have businesses getting access to credit that he would not normally want to get access to credit.

And then secondly, the main point of your book is that credit is access to resources. It's not the dollar bills; it's what the dollar bills can get you. Well, even if banks are engaged in fractional reserve banking, does that multiply the amount of tractors in the economy? Does that multiply the stuff in the economy? It does not. What it does do is change how money is channeled in the economy and who gets that fixed supply of resources. It doesn't increase the amount. So your very argument in the book that credit does not mean, you know, more stuff falls out of the sky seems to invalidate your argument in favor of fractional reserve banking.

And then finally, people can still borrow under fractional reserve banking; they just borrow — the bank uses time deposits to lend them money. I have a CD for a year; they take that money for a year, and then they lend it to somebody else.

And then finally, you have a poker game analogy, and you say, suppose somebody has — you're sitting at a poker table, somebody's got \$100, and then he lends 90 to the next guy, and that guy lends 81 to the next guy — you know, 90%; we're assuming a 10% reserve ratio. You'll notice at the end of this there's still just \$100. That's true, but if these were fractional reserve banks, they'd be able to give him a checking passbook. They'd be able to create checking deposits out of thin air. Of course nobody at a poker table could do that. So I think that analogy just doesn't work, and I think your argument just doesn't work. It invalidates the whole thesis of your book. So do you want to retract it now here on the show?

TAMNY: No, no, I won't retract it, because I don't think that's what — that's not my argument. I mean, let's face it: banks are in business. They would be insolvent, they would be acquired tomorrow if they didn't lend out what they took in. That's why they're a bank, and people want a very negative interest rate, they could of course pay a bank to warehouse their money, but that would not be a bank. If what you're describing were true, certainly you agree with me that contrary to what many Austrians say, banks can't multiply credit; credit is real resources. Banks cannot do that. But if in fact banks were multiplying access to economic resources, implicit there is that they would be devaluing the dollar. And as such, rich people would not keep at least some of their money in banks. The dollar would have no exchangeable purpose if what you're saying were true. The facts are that I can deposit \$1,000 in the bank, and it will be lent out, but in depositing that money, I no longer have access to it for the time. Now, I can go demand that money back, but let's face it, a well run bank has assets that it can pledge as collateral to bring money in to fulfill my demand for my money bank. So no, I don't see the problem there.

If in fact it were true, why don't you and I start up a bank tomorrow, because I've never heard of this, but this notion that banks can just create money out of thin air, wouldn't life be easy if banks could do that? They wouldn't need to be bailed out all the time. Furthermore, it would be the best business in all of the economy to be in. Oh wow, just because you have "bank" next to your name you can multiply money. But in fact, that's just not true. I mean, as I point out in the book, banks are dying before our eyes as a source of lending. If it were as lucrative as Austrians say it is, banks wouldn't represent 15% of total lending, as I've learned from you and others, and that number is in decline before our eyes. That number is going to be below 10% probably in the next few years. If it were as lucrative as you describe it, let's face it; more people would be in banking. But in fact, the talent's moving away from what is vanilla and boring.

WOODS: Okay, I mean, it's true that a bank can make a lot of bad decisions. It can hold bad assets on its books and gets itself in trouble in various ways —

TAMNY: Sure.

WOODS: — but we do have different measures of the money supply. We have the monetary base; we have M1; we have M2. This is precisely meant to measure, for example, the creation of money by banks, to —

TAMNY: Why would we want to measure such a thing? Let's face it; neither you nor I could control money supply on our best day, nor can the Federal Reserve, nor could the smartest Austrians in a room control money supply. Money supply is demand-determined. Beverly Hills never has a money supply problem. So if what you are saying is true, that in fact banks are just creating money out of thin air, what you're implicitly saying is that they're devaluing the dollar. Well, if that's true, why is it that the rich hold so much wealth in dollars? Why is there so much "money supply" in Beverly Hills, in Greenwich, in Manhattan, but so little money supply in Baltimore or in Charleston, West Virginia? If what you're saying were true, in fact most dollars would be in the poor parts of the country and in the rich parts of the country there'd be some other form of money.

WOODS: If I have \$1,000 in a checking account and the bank then lends out whatever amount — whatever amount of that. It could be 900. Maybe they're super conservative and they lend out only 500. The point is that person has a checking account balance now of 500, and I have a checking account balance of 1,000. Before this began, there was simply my \$1,000. So that is the creation of — this is what Mises talked about in *The Theory of Money and Credit*, the creation of fiduciary media. That is the creation of money, and the point is that as you create that money you are putting downward pressure on interest rates, and you are setting in motion the very ingredients that we criticize as setting up the business cycle. And this is why we don't want to encourage it. So my view would be not to say we have to make it illegal. I would say, let's let the libertarian judges of the future sort that out. For now, let's see what would happen if we took away all support for banks. There's no Fed to bail you out; there's no FDIC to bail you out. It's just normal business conduct that you have to rely on your reliability and your reputation. And then let's see where the chips fall.

TAMNY: And Tom, to be fair, I should be able to make my point here. That's what we have today. It's very clear, and I think you would agree that it's true, it is unheard of among solvent banks to go to the Fed and borrow money. Implicit in your argument is that solvent banks go to the Fed all the time to basically make up for cash shortfalls. They don't. That's the whole point. A solvent bank would never go to the Fed, because that an admission that your assets on your books are so dodgy that no one would give you a loan to fulfill a short-term surge in demand for the cash on your books. So in fact, right now it's only failed banks that go to the Fed, and that's one of the reasons that I argue get rid of the Fed, because we don't want to bail out the insolvent. We want them to be acquired.

But going back to the earlier thing, that's not a creation of money. Let's face it; when I deposit the money in the bank, I am giving up use to it. Someone else has use to it. If I want to take it back, then I get use to it back, but there's no multiplication of money. Again, if what you're saying is true, let's leave out the reserve requirement and see how quickly \$1,000 multiplies into trillions of dollars worth of claims almost in a

heartbeat. But that's obviously not what happened, and if that were true, there would not be dollars in Beverly Hills and other places — the dollar would not be the world's currency or what the rich keep their wealth in, if in fact it could be multiplied in the way Austrians describe.

WOODS: But it's not just Austrians. It's textbook economics.

TAMNY: Textbook economics? God, if we're going to go that route —

WOODS: I'm just saying that — my point is this is not some bizarre peculiarity of the Austrian school. This is — I mean, that — to me, I guess we're just arguing over semantics. If I have a checking account where I can write checks up to \$1,000 and now this guy has one, he can write checks up to 500, then we are now bidding over resources. I'm bidding with a guy who shouldn't have any access. It's created out of nothing. He has \$500 worth of bids. I have \$1,000. He should have zero.

TAMNY: Because when you deposited that money, at least for the time, you gave up your bid for —

WOODS: I didn't — not a demand deposit.

TAMNY: You're transferring your consumptive — or your borrowing or your consumptive ability to someone else, at least for the time.

WOODS: It could be for a split second, just for the convenience of using checks.

TAMNY: Tom, if what you're saying is true, you know, the Austrians are for free markets, and I guess all the other textbook economics are for free markets, start up these banks that don't lend out money. I guarantee — try to find an investor for this idea, whereby we're going to warehouse the money, but be my guest and do it. I ask you the question: if in fact they existed, first of all, would you keep your money warehoused so you'd have to pay a high interest rate to keep it warehoused? And I ask you the other question: do you honestly think without the Fed that banks wouldn't fractionally lend?

WOODS: I think with Mises they would do it much, much less and much, much more cautiously than they do now.

TAMNY: Maybe they would; maybe they wouldn't, but that's a market decision. But you cannot — the argument you're making is that banks are relying on the Fed so that they can essentially expand money, but that's simply not true. As any banker will tell you, it is unheard of to go to the Fed for a loan. Only insolvent banks do that.

WOODS: I get that, but I know you want to get rid of the Fed, so we don't even have to argue about that.

TAMNY: Oh, absolutely —

WOODS: My point is that the existence — whether or not it's actually used, the existence of the Fed and the existence of the FDIC means that decisions are made on a different basis from how they would be made on a pure free market, and it's my belief that things would happen a lot differently on a free market, but my view is, let's run that experiment and let's see which one of us is right. And then for you to say, why don't you launch your 100% reserve banks and see where they go, this is almost like saying, well, why don't you try to build roads, why don't you try to run schools. You can do it, but look what you're up against. You're up against a cartel.

TAMNY: Let's leave you out of it. Wouldn't someone, wouldn't some entrepreneur have come up with it at some point if in fact what you're saying is so crucial to the banking system? And I'm sorry, it hasn't come up because it probably — look, it would appear that entrepreneurs have not found a way to do that. To your exact point, we didn't need the banks in '08. If we hadn't bailed them out, there was still all sorts of lending in the U.S. economy. There's all sorts of sources of credit in the U.S. economy. Doesn't it strike you as odd that they haven't come up with money warehouses yet?

WOODS: Well, I think the answer to that is very similar to the answer of, if Austrian business cycle theory is so good, how come people keep getting in on these booms, even when they know darn well it's an artificial boom. And the answer is that if you don't get in on the boom, you're going to get your clock cleaned by everybody who is in on it. And the same thing goes for fractional reserve banking today. If you don't get in on it, you're going to get your clock cleaned.

TAMNY: So when 2,000 carmakers sprouted up in the early 20th century, I suppose that was just some irrational, artificial boom, when in fact the Fed didn't exist when this all happened. Just about everyone of them failed. I guess you're saying that was an artificial boom, but in fact it had a transformative impact on the economy. Look, we've got to accept the fact that Silicon Valley in boom times and then in average times, just about every business created there fails. Silicon Valley has been built on 50 years of failure. By your logic, we should just avoid that altogether, because let's face it, we know 98% of the companies are going to fail at some point. But that is the source of progress. Thank goodness there was an Internet boom. Did a lot of the companies die? But do you want to live in a world without the advances that we got from the Internet? And the Austrians said that was artificial too. I beg to differ. That's called progress.

WOODS: No, I don't think that — no, I mean, I can think of a number of people who wrote on the Internet boom. They're not saying the whole thing was artificial, that there was no wealth created, and that I think it was really only toward the end of the '90s that you started to see the total absurdity of some of the valuations of places that had nothing other than a domain name. Like, you would admit that.

TAMNY: Well, you — no, but wait a second. You could have said the same about the auto boom. Think about all the absurdity there. 99% of those car companies failed, but I don't want to live in a world without it. Look, in a growing economy, there's going to be a ton of experimentation. Thank goodness for that. And that's one of the points in

the book. Easy credit. And Silicon Valley, as evidenced by all the billionaire venture capitalists, credit's very, very expensive in Silicon Valley, and the VCs understand that most of the companies they fund are going to fail, and it's just the very few good ones that will appear over the losses. I love that kind of experimentation.

WOODS: Failure is a wonderful learning process.

TAMNY: Okay, but you're saying that this was all artificial.

WOODS: No, I'm not saying anything of the kind. If it's fueled by artificial Fed credit, then I'm with Mises that that is destructive because it is channeling wealth into areas that it wouldn't have gone into otherwise. And I'm not somebody who says, well, hey, isn't it cool that we put a man on the moon and all that. Yeah, I suppose it is, but that's not where the money would normally have gone, and I favor the free market. I want to see where that money would normally have gone. And if that would go into people creating a lot of unprofitable auto companies, then that's where it goes, but I want to just let the chips fall where they may and —

TAMNY: You think the Fed created Silicon Valley? Is that your point?

WOODS: No, I don't, but I do believe there was a Fed-induced boom as part of it. And I'll link, today's show notes page is TomWoods.com/686, and I'll link to an article by Roger Garrison who is one of the key theorists of Austrian business cycle theory, who talked about some of the destructive aspects of the 1990s and how they were in fact fueled by the Fed. That doesn't mean that they're — what the Fed does when you look at whether it's the '20s with radio and communication — like, whatever it is, as Roger Garrison puts it, the business cycle created by the Austrian means, it picks backs on whatever the big thing is at the time. Whatever the big thing is becomes deformed. So it could be the Internet; it could be housing. Whatever the big thing is gets revved up beyond where it ought to have been. So that doesn't mean that all of it was a waste. No, to the contrary; it was not a waste.

TAMNY: Why doesn't the Fed create an artificial boom in Baltimore? Why did that never happen? Why can't the Fed create an artificial boom in Detroit right now? And it can't because, as has become very clear —

WOODS: Because that's not the big thing. Nobody in his right mind is investing in Detroit.

TAMNY: Precisely. And so what we're saying is that the Fed can't distort nearly as much as you think it can do. Look, I want to get rid of the Fed, but this Austrian notion that the Fed can create booms, if that were true they would have done it in Baltimore by now and some of these poor places. But in fact, money and credit in general go to where they're treated best, as though the Fed doesn't exist. That's the point of my book, is that beyond the fact that let's talk about what credit really is, the Fed was never nearly as powerful as presumed and its power is dying right before our eyes. And how do we know that? Because the banking system is the least relevant source of

credit in the U.S. economy. It's 15% of total lending, and that number is in free fall. The very banks that so many textbook economics are claim are doing all this damage, God, they're dying before their eyes. They're bailed out wards of the state. The real dynamism occurs from entities that have nothing to do with the Fed, and that's why I'm so optimistic.

WOODS: Well, in fact, one of the points that I made in *Meltdown* back in 2009 was that people who were screaming about the need to help all the banks because otherwise there'll be no payroll and people won't be able to get paid, everything will go dark, I pointed out a number of studies that showed exactly what you're saying, that there's no need for this crazy, insane demand for credit and bailing out the banks, because at this mature stage of the U.S. economy there are other sources of capital that people could turn to. Look, I want to give you a chance to — I don't want this just to be, well, Tamny and Woods had an argument about fractional reserve banking. I mean, I think it's a great book. Honest to goodness, I think somebody reading this book will be able to argue a lot of really effective points in ways that you would not have thought possible. Can you tell us, though, Chapter 18 — because I did say we would get to this — "The Fed Has Theory and It's 100% Bogus." Can you tell people what that theory is and why it's bogus?

TAMNY: The Fed believes that economic growth is inflationary, that it leads to rising prices and then rising labor costs. Well, I make the point that if you look throughout history, whether it was the ballpoint pen that began as a \$12 item that now we can have for cents on the dollar, the computer that was once \$1 million that we can now get for \$200, the list is long. In fact, economic growth is the biggest driver of falling prices, simply because venture buyers come in and buy something for very expensive. They discover if there's a market need, and then entrepreneurs come in and figure out ways to constantly drive down the price, to make something for cheaper and cheaper. In terms of labor, we see the same thing. What are some of the biggest job destroyers in history? Think the car, the computer, the Internet. These are all economic advances. Well, the Fed acts as though economic growth leads to labor shortages, but in fact it's the very economic growth that softens labor shortages, that creates scenarios whereby we can produce a lot more for a lot less. So contrary to the Fed's point of view about economic growth causing labor tightness and good tightness, in fact, that's the very growth that brings down prices and that, again, mitigates labor supply problems to the extent that they exist.

WOODS: John, how can people — I mean, obviously they can get the book on Amazon, so I'm going to link to the book at TomWoods.com/686. It's called *Who Needs the Fed? What Taylor Swift, Uber, and Robots Tell Us About Money, Credit, and Why We Should Abolish America's Central Bank*. I like a good paragraph-long subtitle, which I've done myself —

TAMNY: (laughing)

WOODS: How do they follow your own writing?

TAMNY: You can find me, I'm still editor of *Real Clear Markets*, and so I put all my posts up there. I'm also at *Forbes*, but I again post all of my *Forbes* stuff at *Real Clear Markets*, so if you look there I usually have columns Mondays and Tuesdays, sometimes Thursdays too, and so that's the best way to reach me. And then of course my books, I like to think that they explain things fairly easily, that they unveil as simple what should be simple. Per von Mises, economics is not dismal; it's a beautiful thing, and I like to think that I show its beauty.

WOODS: Yeah, no argument there. So TomWoods.com/686, we'll have a link to *Real Clear Markets*, have a link to *Who Needs the Fed?*, your previous book. All kinds of John Tamny goodness will be on that page. John, I appreciate your time and your good sport with our little back and forth. Best of luck with the book.

TAMNY: Thanks for having me.