



Episode 696: The Problem With Socialism: Tom DiLorenzo Educates Socialist Millennials

Guest: Tom DiLorenzo

WOODS: Today's the release date for your brand new book, *The Problem with Socialism*. This is so exciting. You did this at breakneck speed, and when I got my PDF copy, anyway, and I flipped through it, I thought, this is so much more — even if you had just delivered what the title promised, that would have been great. But it covers so many topics and so many areas, like, for example, public education, which is basically run on socialist lines, so why not include that. It really blew me away. So why now? Here's your softball question: why a book on socialism now in 2016?

DILorenzo: Well, there was an opinion poll that I read about that said that 69% of the Millennial generation that was polled thought that it would be a good idea to have a socialist as president. And of course there's the Bernie Sanders phenomenon, where hundreds of thousands, mostly young people, became infatuated with his promises of socialism. And so I got to thinking, you know, that the younger generation never lived through the Cold War and all the controversies over socialism like us old-timers did, and they're certainly not taught much about it in school. And so I think the time is right and it's very important to teach, to write a book that's very easy to understand but yet is well documented and scholarly. There are a couple hundred footnotes in there. It explains all aspects of socialism and why it'd be a disaster for the economic future of the Millennial generation to go further down the road of socialism.

WOODS: You mentioned Bernie Sanders. It's funny; a couple weeks ago he was interviewed by Univision, the Spanish network, and they asked him, well, do you have any comment on what's going on in Venezuela. Right? There you had a country that was organized more or less along these lines.

DILorenzo: Yeah.

WOODS: And he had no comment. I mean, no comment at all?

DILorenzo: Yeah, for the first time in memory Bernie Sanders was silenced —

WOODS: Yeah.

DILORENZO: He was shut up when they asked him — a Latin American journalist from Univision asked him if he had an opinion on the economic disaster in Venezuela and Argentina, and he said no, "no comment," you know, for obvious reasons.

WOODS: Yeah.

DILORENZO: Venezuela adopted socialism in 1999, and it's such a bad economy today that people are literally rummaging through garbage in the street looking for something to eat, and a hamburger costs the equivalent of \$170 because of hyperinflation. And that's the society that Bernie Sanders is promising the Millennial generation.

WOODS: "Socialism" is a word that's been used to describe a lot of different kinds of regimes. Obviously Sweden is not the same thing as the Soviet Union. So if you have a book called *The Problem with Socialism*, you've got to first decide what are you going to cover. Are you going to cover all the varieties of socialism? Are you going to cover classical socialism? So what's the tack you're taking here?

DILORENZO: Well, the original definition of socialism was government ownership of the means of production. So you know, government-run enterprises. And we've got plenty of that, even in the United States today. But in his famous book, *The Road to Serfdom*, in the 1976 edition, Friedrich Hayek said that socialism evolved to mean income redistribution through the welfare state and progressive income tax by the time you get to around the 1960s and '70s, so I include that as well.

And also, in Ludwig von Mises' famous book, *Socialism*, he says that socialist always had a dual strategy. One was to nationalize as much property and land and industry as possible. And the second arm of that strategy was what Mises called destructionism, to destroy the private property of society through taxation, regulation, any means possible. That's why I have chapters in the book on socialized medicine, how welfare harms the poor, the minimum wage law. There's a chapter called "Islands of Socialism" about the follies of government enterprise. And even regulation; I have a chapter called "How Socialist Regulation Makes Monopolies." And so it's a pretty broad look at socialism and what Mises called destructionism, the purposeful destruction of the private enterprise society.

WOODS: The title of your book, *The Problem with Socialism*, is — well, it may be taken from the statement by Margaret Thatcher: "The problem with socialism is that you eventually run out of other people's money." There are so many problems with socialism. Is there — I mean, where would you begin, basically? What would you say? If you've got to just tell a Millennial in 30 seconds what's *the* problem, what would you say?

DILORENZO: Well, the first chapter — I mean, the second chapter's called "Why Socialism Is Always and Everywhere an Economic Disaster," and I just lay out in as straightforward language as I can the various problems with socialism. One is the incentive problem. No one has an incentive to work if there's no link between effort

and reward. And then there's what Friedrich Hayek called the knowledge problem, the idea that what really makes an economy work is all the dispersed knowledge in the minds of millions of people.

And then there's the calculation problem, the problem of how to decide how to produce things when you don't have a market crisis determined by supply and demand. And so basically if you don't have the market feedback mechanism that rewards good consumer service with profits and then penalizes bad service — you know, higher prices or low quality products — with losses, then you're just going to have economic chaos.

And I talk about the Soviet Union and Latin American countries that have failed, the African countries that adopted socialism after colonialism ended. They all suffered the same fate. They all destroyed their economies, and right up to the present day with Venezuela being the latest example of an economic implosion caused by socialism or government-run industry.

WOODS: I'm looking through all the different topics that are hit here. Now, I read this probably about a month ago, I would say, or maybe a month and a half ago, and I've already forgotten just the diversity of topics that are covered. I mean, you've got, in addition to what everybody would expect covered about socialism, you've got "How Socialism Causes Pollution"; you've got a section on socialized medicine; you've got a section on welfare and minimum wage. Anything that is organized along principles that could be recognized as socialist, you are taking on and attacking here. Then you have a chapter on myths that socialists have about capitalism. I'd like to — even though that's toward the end, I'd like to say a little something about that for a minute, because I, against my better judgment, get caught up in arguments on Twitter. I don't think you're on Twitter, Tom, are you?

DILorenzo: No. I try to avoid Twitter.

WOODS: Yeah, okay, so once again, in case anybody needed to be reminded, Tom DiLorenzo is smarter than Tom Woods. I get sucked into these ridiculous debates on Twitter. You can only use 140 characters in each tweet, and I'm talking to socialists who don't know the first thing about capitalism. They're blaming me and my ideas for things that the Fed did. They're saying, oh, you think it's a good idea for a small number of people to be able to control interest rates. What are you talking about? That's the opposite of capitalism.

DILorenzo: Yeah.

WOODS: So what are the kinds of things that basically everybody runs into in school or at work? When you're talking to people about capitalism, they have all these misconceptions, and what are some of them, and how do you answer them?

DILorenzo: Well, one of the things I did, I looked at the websites of Democratic Socialists of America and the Socialist Party USA —

WOODS: Oh, smart.

DILORENZO: — to see, you know, what are the people who are proud socialists saying about this. And one of the very first things they always say is the problem with capitalism is they put profits before people.

WOODS: Right.

DILORENZO: They're only interested in profits and not people. And of course, the fundamental error in that is that in a free market, no business person can make money without serving the people. You know, customer service is how you make money. You serve the customer, and the customer serves you by giving him or her their money. And so this is a basic, fundamental falsehood that you can make money in the free market economy by ignoring the people, as they say, and just going after profits.

Then another one is the old, you know, some version of the subsistence theory of wages, that under capitalism the working class will be stuck at the bottom and they can't go anywhere, and only the rich, the 1 percenters thrive from that. Well, when you think about it, the only real recipe for the working class being stuck somewhere is either in socialism itself or the welfare state. You know, if you go on welfare and stay there for several generations, you're going to be at subsistence level of living for a long, long time. But only the market can provide you with economic opportunities that can get you out of a situation like that.

And so the socialists, again, are exactly the opposite of the truth when they criticize markets as being sort of enemies of the working class and socialism being their friend. It's exactly the opposite of the truth. Those are two of them that I touch upon in this last chapter.

WOODS: Tom, how do you answer this argument from the socialists? They'll say that the freedom that we're talking about as libertarians is really a sham freedom, because in a market society it's nothing other than what they call, as you know, the freedom to starve. Sure, you have freedom. You don't have to take that job with that abusive employer, but good luck getting food down your throat. How do you answer that? Is it a sham freedom?

DILORENZO: No, I don't think it is. I think, you know, nothing in the world has reduced poverty more than capitalist economic growth, certainly much more than the welfare state. And I have a chapter on how the welfare state harms the poor, in that, among other things, it has really grossly crowded out all the many thousands of private charitable efforts that used to exist in America and elsewhere, because people take this attitude that why should I take money or why should I donate my time to help the people in my neighborhood who are need; the government will do it. Why should I educate my own children; the government is doing that. And so people tend to withdraw from these things, both in their donations of money and in their time, and we've done a great deal of harm with that.

I cite Charles Murray's book *In Pursuit*, that documents whenever we have periods of faster economic growth, Americans donate many billions of dollars more to charity to help our fellow men, and of course we've created a lot of jobs and opportunity. And so the welfare state not only traps people in horrible public housing projects where crime is rampant and the police do little or nothing about it, but it destroys a lot of the private efforts that once existed that are much more effective to help people out in society. And so that's one of the things I would use in my book that would address that question.

WOODS: You have a chapter in here on the Federal Reserve. What I like about that is how subversive it is. I don't know if you even realize how subversive it is, because think of who will be reading this book. Of course we want a lot of socialists to read it, and I will guarantee there will be cases of people who will read it and have their minds changed. But a lot of these people will be typical right-wing radio listeners who have never heard an unkind word about the Fed in their lives —

DILORENZO: Sure.

WOODS: — and now innocently in a book against socialism, which they know they're supposed to be against, they get this chapter that subversively introduces them to the idea that maybe the Fed is also operated according to objectionable principles. Did you have that particular subversive idea in mind when you wrote that chapter?

DILORENZO: Well, yes, the thought did enter my mind, because I've had quite a few students — you know, I've been an economics professor for a long time, and I'll never forget one of the top students I've ever had; he was in one of my advanced classes, and he was a senior economics major. And he had already taken almost all of the whole curriculum in economics, and he takes my American economic history class, and after a couple of weeks, he comes up to me and says, you know, I'm going to graduate at the end of this semester, and I've taken micro and macroeconomics and money and banking, and I never knew there were criticisms of the Fed. I never heard of it. And he ended up going to Mises University right after that to learn about some real criticisms of the Fed.

And I think that's a pretty common practice. Even amongst us economists, they're mostly Fed worshippers, with the exception of the Austrian school, of course. So I did have that in mind when I wrote this chapter on destroying capitalism by socializing capital.

WOODS: Yeah, so explain then how you could plausibly fit what the Fed does into a book whose theme is socialism.

DILORENZO: Well, very easily, because to the extent that Hayek's definition of how socialists redefined their tactics by relying more on the welfare state and a progressive income tax, he said, you know, egalitarianism was always the goal, and then you have redistributionism, and the equality of material goods was always the goal, but the means changed. The means changed from taking over industries to

the welfare state and the progressive income tax, and the Fed is one of the major funding forces of the whole shebang, of the whole welfare state. That's why the members of Congress that you see, especially on the Democratic side, are such rabid defenders of the whole Fed banking complex. That's what finances all of their welfare state programs.

And of course, you know, I've been an economic student since I was 18 years old, and I've always been taught and I've been teaching that price controls are a bad idea for many reasons. But what else does the Fed do but to try to impose price controls on interest rates? And that's really is a version of central planning. It's our version of central planning that we used to criticize the Soviets about, but we employ many of the same techniques.

And of course, I mention in the book also that if you look at the *Communist Manifesto*, in his 10 planks of the *Communist Manifesto*, and the nationalization of credit was one of the top planks in the *Communist Manifesto*, and also in the Nazi Party platform of 1925. So whether you're talking about the fascist version of socialism or the communist version, the Soviet version, they all placed a high priority on the nationalization of the money supply. And that's what we've got.

WOODS: I've got a really juicy question for you, but first let's thank our sponsor.

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All right, Tom, let's talk about the Nazis for a minute. I get this, again, in these inane debates I have on Twitter. They come back that Nazism was really the full realization of capitalism, and they say that even though we know that the Nazi Party was called "National Socialist," nevertheless, in practice they still had private property. In practice it was more or less a market economy. So what do you say to that? How do you deal with the socialism of National Socialism?

DILorenzo: Well, I quote Hayek as showing that all of the famous fascists started out as socialists, for one thing. And they just said that, you know, we have a unique brand of socialism; we're going to call it National Socialism, as opposed to international socialism. And of course, in a real free market economy the consumer is king. One of my favorite quotes from *Human Action* by Ludwig von Mises is in his chapter on the market, and how he says on the offside it looks like the businessman and the banker is in charge of deciding what gets produced, but it's really the consumer, and the consumer has whims and rapid changes in his or her preferences, and you can be rich one day and poor the next day thanks to the consumer.

And under fascism, under economic fascism, it was the government that determined what was to be produced and how it was to be produced and the labor relations you're going to have and who you can hire and everything else. And so yes, they allowed some degree of private property, but it was very heavily regimented and controlled.

And besides that, in real fascism in Germany, they did nationalize over half of the entire economy, and then the other half was so heavily regulated and regimented that it was de facto nationalized. And so there was no semblance to a free market in Nazi Germany at all, and Mussolini did much of the same thing in Italy during the same period. And so I think it's disingenuous if not absurd to call Nazi Germany a free market economy or a capitalist economy for those reasons.

WOODS: I read that book, *The Vampire Economy*, some time ago about the economy of Nazi Germany, and it does give you a sense of what life was like for the business class in Nazi Germany. Your chapter on this is really — I mean, basically your chapter on each of these topics, I want people to understand, has got all the meat that you're going to need and more when you are faced with these objections. So this is a book — I know you think, oh, we have a lot of books on the show. Yeah, but this one, this is one that's going to get you out of many a jam. We'll put it that way.

What about the Scandinavian objection? Aren't they all happy in Sweden, Tom?

DILORENZO: Yeah, I have a chapter on the myth of successful Scandinavian socialism. If you read up a little bit about what's been going on in Sweden, is in the late 19th century, early 20th century, Sweden was one of the wealthiest countries in the world. And they had all these great inventors; you know, Alfred Nobel invented dynamite, and Saab and Volvo and a lot of other very successful companies. And then the socialists took over the government in the 1950s, and they began basically eating up all the capital with very heavy taxation that was created by these earlier generations of entrepreneurs, who were allowed to limp along through successive decades.

But Sweden destroyed its economy eventually to such an extent that just not too long ago, 10 to 15 years ago, they had 500% interest rates in Sweden because they inflated the currency to try to bail out their big socialist welfare state. And so Sweden was forced to cut back, privatize some industries. They even started privatizing sections of healthcare in Sweden, and they made a bit of a comeback, and their economy became a little bit more prosperous.

But still, the income in Sweden is still below that of Mississippi, which is the poorest state in America. And so when Bernie Sanders points to Sweden, or anybody else for that matter, they're really spreading a falsehood. The only reason Sweden has improved in recent years was cutbacks in government. And the Swedish president, by the way, is out there denying that Sweden is a socialist country anymore, because Bernie Sanders especially has been out there saying that we want to be like socialist Sweden. But their own president is saying, no you don't, because we're not socialist Sweden anymore. And so that's another myth.

WOODS: I did episodes on each of Sweden, Denmark, and Norway on the show, and I had somebody from Sweden, from Denmark, and from Norway to get on here and tell us what's really going on. And the guy from Norway was saying that the effective tax rate is somewhere in the neighborhood of 70%. And then you hear people saying, oh,

you get free education. Well, I don't deny that you get free education, but for heaven's sake, if 70% of my money is being taken, I would expect something. I mean, of course I would expect something to happen as a result of that.

DILORENZO: Yes —

WOODS: Now, let me just —

DILORENZO: It's —

WOODS: No, go ahead.

DILORENZO: Yeah, it's impossible to spend that many billions of dollars, or the Swedish currency version of doing the dollars, without somebody benefitting in some way.

WOODS: Right, somebody's got to get something. That's right.

DILORENZO: Yes.

WOODS: Now, let me ask you just to wrap up, these days, much, much more than, let's say, 20-something years ago when I was graduating from college, there are more criticisms of capitalism, fundamental criticisms of the whole system than ever before. I'm sure that's in part because of the financial crisis that people mistakenly blame on the market, but it's also because people say, look, workers are feeling very, very vulnerable. A lot of people are underemployed; it's hard to find the kind of job people want and to be able to stick with it. People who have recently graduated from college are finding that it's no longer enough to just get a college degree in anything and then have a 40-year career somewhere. Things are really difficult for a lot of people, and people feel like they're stagnating and not making progress. What are we to blame for that if not capitalism?

DILORENZO: Well, there's a lot of blame to go around. Capitalism is what we need more of. Well, the educational system is largely a socialistic enterprise, isn't it? It's mostly overwhelmingly funded by government, and so you have all these universities that provide degree programs that really teach the students things that are of little or no value in the marketplace and because of the absence of market discipline in this whole socialist world called the university system.

And the Fed is a big culprit too. One of the things the Fed did, look at the real estate bubble. How many hundreds of thousands of people had jobs in everything related to housing? The mortgage business, housing, housing construction, home goods, and all that. And they thought they had careers there, and then the bubble burst, and then they had no jobs, and they have to retrain or reeducate themselves. And so we get this perpetual mismatch of jobs and the real needs of the people, thanks to the Fed's bubbles that it keeps creating. And so there are a lot of things we can blame it on, but

I would blame it on interventionism and our quasi-socialist system more than markets, to be sure.

WOODS: Well, the book is *The Problem with Socialism*, released just today. I will link to it on our show notes page for today, and also I'll have a nice shortcut. You can go right over to Amazon to pick it up just by typing in TomWoods.com/socialism. Best of luck, Tom. I hope this is a smash hit for your sake and for the sake of the world. Thanks so much.

DILORENZO: Thanks, Tom. Thanks for having me and have a good day.