



## Episode 758: Where Bernie Went Wrong

Guest: Hunter Lewis

**WOODS:** It's been probably close to three years. We were talking about a couple of other books of yours that came out in rapid succession, and now you've got this book I was just telling people about about Bernie Sanders. Do you feel like maybe the Bernie Sanders ship has sailed, and therefore there's no point having a book on Bernie Sanders? What's the value in looking at these ideas?

**LEWIS:** Yes, that certainly occurred to me as a consideration, but the reason I wanted to do it was twofold. First of all, Hillary started out by really not adopting the Bernie program, but as time went on she began to adopt more and more of it. So as you may have noticed, by now she's adopted virtually all of it. There is one big exception that she has not adopted, which we can discuss later maybe, which relates to genetically modified food. But otherwise she's pretty much taken the whole thing over. It's a little bit Bernie Light, in the sense that he wants the minimum wage to be \$15, she wants it to be \$12, and so on, but she's pretty much taken it over; the Democratic Party has pretty much taken it over. So what Bernie did has actually had a lot of consequences beyond his primary campaign.

And then the other reason I wanted to do the book, despite the risk that it would become outdated, was that I really hoped that Ron Paul would run in 2016, and that would give the public a real lesson in what populism is. They would see Bernie's version of populism; they would see Ron Paul's version. But unfortunately Ron Paul didn't run, so we didn't get that, and millions of young people think that Bernie represents populism.

**WOODS:** What's the difference between Bernie's and Ron Paul's populism in your view?

**LEWIS:** Well, it's very fundamental. They agree on a number of things. I was just discussing this with Ron Paul recently. I mean, for example, Bernie voted for Ron Paul's Audit the Fed Bill. Bernie agrees with Ron Paul that we have really a large amount of corruption today in our society, in our economy. So they agree on a great deal of what's wrong with the country, but they don't agree at all on the solutions. And it seems to me that Bernie's solutions are illogical in that the fundamental problem is crony capitalism. And they both agree that we have crony capitalism. But what is crony capitalism? It's the alliance of government and special interests, and Bernie's solution is make government even more powerful, put government even more in charge of the economy. And of course that will just lead to even more crony capitalism. But Ron Paul sees the best solution.

**WOODS:** What about the question of inequality, though, because there he's got a very – whether it's right or not, it's a powerful populist message. He says the system is rigged against you, it's designed to help only the very wealthy, and this is the very nature of capitalism. That's the message.

**LEWIS:** Well, I consider myself a populist. I have no doubt that Ron Paul is a populist. But I would also say that Bernie is a populist in the sense that he wants what is best for everybody. In particular he wants what is best for the poor and the middle class. He certainly does not want special privileges or benefits for the rich and powerful. So Bernie is a populist; it's just that he's going about it the wrong way. He's not going to make things more equal in the way that he's trying to go about it. I mean, why do we have more and more inequality right now? The reason is that we have more and more rich people getting richer by feeding off government, by feeding off the crony capitalism that this alliance of special interests and government creates. So they're getting richer and richer, the middle class is being destroyed, and the poor are getting crumped.

**WOODS:** Well, the thing is I sometimes come across Ron Paul people who wanted to see in Bernie something that wasn't there. I come across people who would say, look, Bernie is against crony capitalism and that's great, and his real criticisms really are – what they would say is, look, we too are against this. We too speak out against this kind of relationship between government and business. But my response always was I don't see Bernie making these fine distinctions that you and I make. I see him making very sweeping statements about capitalism in general. He's not distinguishing between cronyism and the real thing, and that to me seems like the key issue. Moreover, it seems like the rich in his view, it's possible that he could find a few socially responsible rich, but I see something of the socialist caricature of "the rich." Again, no fine distinctions being made here. "The rich" are idle parasites who accomplish nothing. How should we think about stuff like that?

**LEWIS:** Well, I mean, the basic problem that Bernie does not understand is that while he decries crony capitalism, his proposals were just feeding and feeding and making it even worse and worse. And Hillary Clinton does these kind of logical lapses. So for example, she says that inequality leads to corruption, but of course it's actually corruption that leads to inequality. There are a whole series of things that both Bernie and Hillary just don't get. They don't understand how illogical they're being.

Now, some of what Bernie says of inequality also, it's just the old kind of envy problem, because what most people agree on is that the key challenge is to do something about poverty, is to get poor people into decent financial shape and to solidify the middle class. It isn't necessary to eliminate rich people to do that. In fact, if you eliminate rich people you'll just make the poor poorer and the middle class worse off, because we do need the rich to save, to invest, and to make good investment decisions, which government never does.

**WOODS:** I hear sometimes, though, the criticism that the rich aren't really job creators after all, that actually the rich are people who shelter their income in tax havens and sit on the beach and sun themselves all day. I mean, that is the caricature that frankly a lot of Americans buy into, so why is that not right?

**LEWIS:** Well, there are two kind of rich people: those who contribute to society and those who don't. And capitalists contribute to society in many, many ways by saving, by investing, by making wise investment decisions. It's the quality investment that matters, not the quantity, which is one of the many Keynesian fallacies. So those rich people are not only useful; we can't have an economy without them. But on the other hand, there are these other rich people who are crony capitalists who are getting rich through their ties with the government or through subsidies from the government or through monopolies granted by the government, and they are the problem, not the solution. So Bernie's got it partly right, but he misses the big picture.

**WOODS:** I want to talk about a couple of historical episodes in Bernie's interpretation. One of them's quite recent, the crash of 2008; the other one's in the past back in the 1930s, the Great Depression years, 1929 through the '30s. I'd like to know – let's start with the more recent crash. What are the lessons that Bernie Sanders draws from this crash? Does he get any part of that picture right?

**LEWIS:** Well, he's certainly right to excoriate Wall Street, to see that something is wrong with Wall Street, to describe Wall Street as corrupt. He's certainly got that right. What he doesn't acknowledge or understand is that Wall Street is simply the carton of the federal government at this point. Why did the government bail out Wall Street? Partly for campaign contributions no doubt, but mainly because Wall Street is an essential instrument in the government debt machine. What Bernanke really worried about in running the Fed in 2008 was that the debt structure of the federal government was going to collapse. That was the main incentive to bail out Wall Street. And Bernie doesn't get any of this. He actually wants the present system where the government just keeps printing more and more money with the assistance of Wall Street and running up debts with the assistance of Wall Street, he wants that to go on. He did an op-ed in *The New York Times*, in which he criticized the Fed for its first tiny, tiny interest rate increase since 2008.

**WOODS:** Let's go back. I want to talk actually about the Great Depression, because I have heard Bernie talk about Wall Street a lot. I haven't heard that much about what he's had to say about Franklin Roosevelt, except what he's said in a speech or two. And you quote from it in your book *Where Bernie Went Wrong*, and he has an extremely conventional – surprise, surprise. Mr. Anti-Establishment has a completely conventional view of what happened in the 1930s and why we need to have a repeat of the New Deal to rejuvenate the economy today. So what's the Bernie picture of the '30s, and what's wrong with the Bernie picture?

**LEWIS:** Well, it's a very important point, because it goes to not only his economic policy proposals but also Hillary's, because both Hillary and Bernie completely misunderstand what happened in the 1930s. Both Bernie and Hillary think that the solution to the economy today is to get wages up, and the wages up will create more demand, and that will create a so-called virtuous circle in which the economy keeps doing better and better. Well, that is exactly the fallacious idea that motivated Herbert Hoover to try to keep wages up during the Depression, and then Roosevelt took over and did even more of, Roosevelt being Hoover on steroids. So all of them have the idea from Keynes or related to Keynes that you can increase demand by increasing wages.

But of course that doesn't make any sense. Bernie wants to increase the minimum wage to \$15, Hillary \$12. Well, why don't they increase it to \$30 or \$100? Why don't they just multiply everybody's wages by four or five times? Why won't that create even more demand? So none of this makes any sense, and it actually that kind of thinking is what created the crisis and the Depression, because there was a crash, prices started to fall, and then first Hoover and then Roosevelt wouldn't let wages go down with prices, and so the companies faced bankruptcy because they were getting lower prices but their wages couldn't go down. So what did they do? They laid off millions of people. Because prices were so far down the people who were not laid off in effect had their incomes in some cases doubled while other people were starving. This was all government-induced.

And you can contrast the 1920 depression, which Jim Grant has written about in his recent book, in which the government did not intervene. Prices went down, but wages went down with them, and within a little more than a year everything was turned around. The economy came back, and there was no persistent unemployment, as there was in the Depression.

And Bernie states in his speeches that Roosevelt cured the Depression. That's completely fallacious. Bernie even quotes the famous "one-third of a country ill-fed, ill-housed," and so on, and yet that was Roosevelt's second inaugural. That was four years after he started. We were still in the Depression. And a year after that we lapsed into even worse depression.

**WOODS:** And you quote that famous statement from 1939 from the Treasury Secretary Henry Morgenthau, who said that we've been spending and spending and spending more than we've ever spent, and unemployment is still way, way up in the double digits, and it just hasn't worked. That's what he said in 1939, but that doesn't make it into any Hillary Clinton or Bernie Sanders speech, or frankly for that matter even the Republicans. I mean, Ronald Reagan said FDR was one of the greatest presidents, if not the greatest president. The mythology of FDR is frankly everywhere, so I have to remind myself to go easy on Bernie. I mean, what do I expect from Bernie if even the GOP doesn't understand Franklin Roosevelt?

Let's fast forward to the 1960s. You even have a short section on the Great Society of Lyndon Johnson. Now, this was a variety of programs. It wasn't just Medicare; it wasn't just things people have heard of. There were a whole bunch of programs in the Great Society, and Bernie has not commented on most of them, but it does seem based on his speeches that he takes for granted that these are all good things. These are all pieces of legislation that have friendly sounding names; how could they not have been good for America? But what say you, Hunter Lewis?

**LEWIS:** Well, yes, he absolutely thinks that everything the Great Society did was terrific. For example, part of that was the Medicare system, which price controlled the entire medical system with ruinous results. I mean, why is medicine and health care so expensive today? It's because it's subject to a federal price control scheme, which started in Medicare but which is now applied to the entirety of medicine. And under that price control scheme, of course, everything just keeps going up, up, up, up.

But the fundamental problem is that Bernie does not understand that not only Medicare but all those programs have been a failure, and when you look today – take Obamacare as an example. You get a big subsidy from Obamacare if you don't make that much money, but all you have to do is earn \$1,000 more and suddenly you lose your entire subsidy. This is the way all the federal welfare systems developed by the Great Society and since work, so in effect you have 100% tax on earning just a little bit more money. You could make 2,000 and lose 10,000. This is a tremendous disincentive for anybody trying to get out of the welfare system. It's just fundamentally the wrong approach.

**WOODS:** All right, let's go back to the present now. In Part 7 of your book, called "Fixing What's Broken," you list a bunch of things that Bernie would like to do. And one of them is jobs for all. This is the sort of thing, by the way, that you see in Harvard Square when there are protests. The, you know, International Socialists are always holding a sign, "Jobs for all!" And the average person who doesn't think these things through may think that's great. Who'd be against jobs for all? Don't we all want jobs for all? So what's wrong with Bernie saying he wants jobs for all?

**LEWIS:** Well, everybody wants jobs for all, but his principal proposal in order to create jobs is public works spending. And of course we've seen all of that before. Keynes in *The General Theory* back in the 1930s said that public works spending, for every dollar you spend on public works, you get \$3 or \$4 back in economic growth, at least \$3 or \$4 back, and as much as \$12 of economic growth. Well, we've had quite a few decades since then and quite a lot of stimulus spending and public works programs and so on, and nobody's ever been able to demonstrate any such return. Some studies try to suggest you get more than \$1 back for \$1 invested – or so-called invested – but many studies suggest you get even less. And of course look at the Obama stimulus bill and what happened with that. It became a complete pork barrel operation. Most of it did not go into public works; it went into local government who was sort of the largest recipient of it. It sustained a lot of government jobs; it created new government jobs. Government employment of course has been the great growth industry in both the Bush and Obama administrations, but that's all it's done. So Bernie doesn't either have logic or evidence in his favor when he proposes public works as a solution for the economy's unemployment problems today.

**WOODS:** But if the public sector doesn't create jobs for people, can we be certain that the private sector will? We've seen years of chronic unemployment. How long do we have to wait before the private sector creates those jobs? I think that would be his response.

**LEWIS:** Yeah, and of course as you know the problem is that the government makes it increasingly difficult. It gets more and more difficult every decade for the private sector to create jobs, because obviously almost everything the government does is interfering with the price and profit system in some way, and particularly interfering with prices through – they create monopolies; they subsidize; they control prices directly in many cases, such as medicine. And under those circumstances, the private sector is not going to be able to create jobs, and unfortunately Bernie is proposing that we do more and more and more of what has gotten us in trouble in the first place, and Hillary's adopted the same program.

**WOODS:** How about Medicare? You have a chapter called "Bernie for Medicare for All," which actually raises some arguments I had – or some points about Medicare I hadn't thought of before. But here's a case where Bernie can say this is clearly a successful government program. For heaven's sake, you're providing medical care for the elderly. Who could possibly have a problem with that? And if we want to expand that, how could that be anything but good?

**LEWIS:** Well, of course in the first place, Medicare is not run by the government; it's run by private companies, the same insurance companies that you hear about that are running Obamacare. And it's just a sink of corruption, with money flowing back and forth between these monopolies created by the government and public officials. It's not a particularly successful system.

Not only have the price controls led to all kinds of price increases, but you go to the doctor on Medicare, and if you have one ailment you're allowed to discuss that, but if you have a second ailment you have to make a new appointment. You're not allowed to even discuss the second one in the first appointment. You're not allowed to have tests that are not directly related to an illness. I mean, this is like very antiquated medicine. You're just not allowed to do modern, up-to-date testing and be reimbursed for it. Medicare criminalizes medicine by if a doctor submits a bill for doing something and then Medicare decides later that it wasn't covered, he can go to jail for that. And if the patient is deemed to be harmed, he can go to jail for life for that. So we've criminalized medicine through the Medicare system.

I wrote an article once in which I said, what would it be like if every time we went to the grocery store it was run like the medical system is and everything had to be approved and so on, nothing was on the shelf? We would all starve. It's an inefficient system, and it's just led to health care taking more and more and more of the economy. And it's not only the Medicare price control system that's done that; it's also the monopolies and drugs that the government's created and so on. It's bankrupting everybody. Why is it that nobody can get a raise these days and that it's very hard to get hired? Well, companies are spending more and more and more on health care, and they don't have any money left over to give people raises and to hire.

**WOODS:** Now, the response may be, look, it's easy to criticize. Sure, nothing's perfect, but it's more difficult to propose an alternative. Yes, it's a highly imperfect system, but what's the alternative? I mean, people get ruined by one catastrophic health issue. They get ruined financially, and at least Medicare helps them out.

**LEWIS:** Of course the only solution is to put the consumer back in charge of medicine the way the consumer once was. We also forget that when – Bernie says that health care should be a right, but what he doesn't recognize is that health care is not something like water. We can all pretty much agree on what water is. It may get a little complicated: there's bottled water and there's tap water and so on, but we have some sense of what water is. But nobody has any idea what health care and medicine are. They have to be defined, and they have to be continually redefined as they change and hopefully change for the better. Government is incapable of defining health care. All it ends up doing is listening to special interests who want to preserve the billions of dollars they're making, and so it becomes increasingly difficult to get any kind of new treatments and especially natural treatments that aren't patentable

into the system as the monopolists use government to keep everybody else out. So we need to put the consumer back in charge of medicine, and the consumer and private sector can of course create its own insurance program to guard against catastrophic events.

**WOODS:** All right, one last thing. I mean, I can't conclude a discussion of Bernie Sanders without saying something about free college. It's free this and free that, but free college is something that has a lot of attraction for a lot of his followers, and again, they would say, look, other countries do this. What's the problem with you people? Once again the US lags behind because of our outdated, outmoded, unfashionable attachment to laissez faire capitalism.

**LEWIS:** Well, of course what has happened is that the federal government in its usual way created the Pell grants and the loan program, and all that money became available for higher education, and all that happened is that it led to higher and higher prices of higher education, so that higher education prices have gone up even faster than medical costs. And then of course President Obama and Bernie and Hillary decry this and say it's a horrible situation, but they don't acknowledge that they have in effect created it themselves, that they are the problem.

Now, to Bernie's credit, he does say, why are we charging such high loan rates to these students? We need to "reduce" them. But he doesn't give the fully story. And President Obama also talks about, oh, we need to help out the students with their loans, but he completely leaves out the fact that the government is engaging in predatory lending in the student loan program. The government in different ways of course has gotten interest rates almost to nothing, so the government can borrow for virtually nothing, and then it turns right around and takes that same money and charges the student as much as 8 or 9 or 10% for the student loan. So the government is making a huge profit on it, and in fact, it's even in the budget under the category of Deficit Reduction. So there's an incredible amount of hypocrisy going on.

**WOODS:** All right, Hunter Lewis, let me ask you as we wrap up: what would you like this book to accomplish?

**LEWIS:** Well, the most important thing by far and the reason that I wrote it is I want the millions of young people who joined Bernie's army and who are passionate and care and who want to study these issues, I want them to understand that Bernie is right in the way he identifies the problems. The system is rigged. There is corruption. There's no argument about that. But that he won't provide the solution. He'll just make it worse. And if they want to really find some solutions that work, they ought to turn to Ron Paul, not to Bernie.

**WOODS:** All right, and that – well, you're certainly going to get no argument from me on that. The book is *Where Bernie Went Wrong and Why His Remedies Will Just Make Crony Capitalism Worse* by Hunter Lewis, our guest today. I'm linking to it on the show notes page, which is [TomWoods.com/758](http://TomWoods.com/758). Hunter Lewis, good luck with this book and thanks for your time.

**LEWIS:** Thank you.