



Episode 876: The Inequality Hucksters

Guest: Leon Louw

WOODS: I want to talk about inequality, but how could I not talk to you about South Africa given that that's where you're broadcasting from? So let's get to that a little bit later. Right now you have been speaking and writing on the subject of inequality. I've hit that subject a number of times on the show, but I've heard you speak on it recently thanks to the miracle of the Internet, and I'm interested in your perspective. You've also commented on the Oxfam study about the handful of people who have half the world's wealth and stuff like that, and you've dealt with Piketty and these figures who are making reputations for themselves based on their views on inequality.

So let's start with, when we talk about inequality, there is inequality in some countries. But the source of it can be, it seems to me, either benign or not benign. Is that the kind of approach you take?

LOUW: Well, I don't concern myself too much with that because many other people do. I try to deal with aspects that are largely neglected. But yes, of course, it can be benign. If somebody offers other people a job and as a result the person who takes the job becomes wealthier or poorer than the person who gives the job, either way there's no reason to believe that anything wrong has happened that has brought about that inequality. As Hayek pointed out, if every transaction that leads to a state of affairs is just, then the outcome must be considered just. And since no injustice is alleged by Piketty or Oxfam — they simply believe that an unequal outcome is by its nature somehow wrong and reprehensible and immoral without ever paying attention to how did that come about, and those who are wealthier become wealthier in some way at the expense of or by assisting and serving those who didn't become that wealthy. They didn't actually become poorer, which we can go into.

However, let me say that their premise is nonsense. When you use the word inequality, there's an assumption econometricians have generated, which is somewhat unfortunate, that the quantity of dollars determines the level to which we regard people as equal. Well, let's just pause for a moment. An ugly, old, mentally retarded, sickly man and a gorgeous, young, attractive, brilliantly intelligent woman, under what conditions would you call them equal? You've given them each \$10. Are they equal? And the answer is of course that equality of condition or quality of life or lifestyle is a much, much, much more complicated thing than the quantity of dollars one has or is presumed to have, which, apart from anything else in these studies by Piketty and Oxfam, is a lot of very, very wild assumptions they make. And frankly, I'm sorry to say, Tom — I don't want to be disrespectful about supposedly intelligent

people like that, but what they generate is complete nonsense and twaddle and doesn't need to be dignified by pretending that it's got some serious aspect to it.

WOODS: I think some of the argument that I can recall that you've made is similar to some things that I've tried to say. Frankly, I just can't bring myself to care about inequality at all. I just can't care about it, because I think to myself I'm doing reasonably well. It never occurs to me to think about people who have private jets and who live lifestyles that are completely alien to my own. It wouldn't occur to me to think about that, and if I did, I'd think, well, good for them. I would never tarry on that. I would never, ever think about it. And yet there are people apparently obsessed with it and I don't think for good, healthy reasons. I just can't see there's a good motive to be obsessed with this. So I really don't care. What matters to me is the immense progress we've made in improving the material condition of the least well off, and I think that's a point that you enjoy making.

LOUW: Oh yes. The most astonishing rise in the living standards of the world's poorest billions has occurred in the last generation. It's absolutely breathtaking. And not only that, but the closing of the gap between the rich and the poor has been also quite astounding as a result of two main causes, one of which I think you and I will both like. Technology has made it so that a poorer person has a much smaller gap in quality of life from the richer person that was the case 20, 30, 100 years ago. And the other thing, which neither of us might like, is welfare. State welfare has brought about a huge level of equality of access to health care, education, infrastructure, and pensions, and so on and so forth. So there is – and you know, such things as justice services.

So the world has become much, much more equal by every objective measure: the quantity of food people have, access to health care, literacy rates, life expectancy, etc., etc. By every objective criterion, the world has become spectacularly more equal between so-called rich and poor, and the poverty has been alleviated on an unimaginable scale. We have exceeded the very ambitious Millennium Development Goals.

Just to give one nice number everyone can relate to, in the 1970s, poverty was for the first time objectively defined as living on the equivalent of \$1 a day. And that was just short of a third of all of humanity, were considered by that definition poor. If we inflation-adjust that dollar, today it is less than 5%. In other words, for practical purposes, poverty of the kind that we had 30, 40, 50 years ago, when the typical TV program had thousands and billions of starving people – literally views of human beings on a massive scale starving to death. Young people have never seen that, because it's vanished. It's disappeared from the planet virtually completely – not entirely completely.

So we have achieved the greatest level of equality and well-being for humanity that has ever happened, and it was as little as a generation ago essentially inconceivable. So far from lamenting inequality, we should be celebrating the alleviation of destitution and poverty on a spectacular scale: a billion human beings rising from destitution to lower and lower-middle income groups.

So the Piketty and Oxfam — what I call Ox-scam, and I will justify the fact that it is a scam if given the chance — but they are beating a drum. And you say, What are their motives? Well, it's a very good question. Their motive is simply straightforward. This is the new ideological frontier, and this is why I regard it as an issue that now needs most of the attention of intellectuals, especially those of us concerned about liberty and human freedom and human progress and human well-being.

But let me tell you how reprehensible they are — what I call the inequality junkies, Piketty and Oxfam being the two most famous, but of course there are many others — is they observe a billion human beings rising from destitution. Nowhere in their literature, the 600 pages of Piketty or on the website of Oxfam, do they ask a very simple question: what was it that led to this? If they are interested in poverty, they will start by saying, where poverty has been most alleviated, what happened, what brought this about. They have no interest in that question at all. On the contrary, were they to ask that question, they would find out that it is because of free market policies, liberalization, privatization, reductions in government spending, reductions in the role of government, liberation of markets that has occurred. And that does not interest them, because it is against the ideological bias. Oxfam has the temerity to tell countries of the world how to tax and how to distribute the wealth, especially in countries where there is the least poverty, the countries to which the poorer of the world all want to migrate and go.

So I consider them — this is the latest ideological drum for opponents of liberty to beat. It has until recently been climate change. Before that it was old-fashioned debates: capitalism versus socialism. This is the new ideological frontier. They are lying about inequality, generating — I can't even call it exaggerations. It's simply twaddle. It is complete nonsense.

You mentioned, Tom — and I'm sorry if I'm carrying on too long and not giving you space to come in here, but just quickly, the Oxfam or Ox-scam saying that the eight richest people in the world have as much wealth as the poorest 50%. Now, the source of that — I don't want to become too technical — is a study by *Forbes* magazine on listed equities of the so-called eight richest people and Credit Suisse's study of financial assets, tradable financial assets and houses minus debt. Now, neither of those actually measure anybody's wealth. They might measure turnover, they might measure assets and so on, but they don't measure wealth.

But let's just do a simple calculation. The eight richest, if you add up their assets on the Oxfam website or *Forbes* magazine, it's \$440 billion. Now, how much do you think the wealth of the poorest 50% of the world is? Well, if you use a simple measure like the quantity of possessions they have — because the Credit Suisse definition doesn't include tools and agricultural equipment and access to infrastructure and savings and pensions and motor cars and artworks and jewelry and other possessions. It includes the net value of privately owned houses — in other words, it includes no public housing. It includes no rental housing, and so on and so forth.

So when you add up everything that's excluded, it turns out that the value of peanuts — just peanuts. Listen to this, Tom. The value of the number of peanuts produced every year — that's not even walnuts. It doesn't include walnuts and macadamias and others, but it's the nuts that the poor people of the world eat — happens to be roughly

about \$440 billion. In other words, the poor of the world have as many peanuts as those eight richest people have. Now, when you start adding everything else, they also have mobile phones and clothing and artworks and jobs and tools and intellectual capital, education, literacy. It then gets to some extremely ludicrous numbers that those eight people have something like .001%. And I've published and produced the numbers of the world's wealth, and that would be something like .01% of, say, the poorest 50, assuming they're very, very poor. They've got a tenth of what the richest 50 have.

So it's just, Tom, lies. You can't actually be polite about it. And people like Deirdre McCloskey have done scholarly critiques of Piketty, but have been very, very kind to him. I want to give you just one example of a blatant lie that he tells. He says in his *Capital of the 21st Century* that the reason why government is not considered to have any capital – very strange assumption. Think of governments around the world. He declares them to have no capital. He says, without providing a source, that this is because government debt exceeds government capital, government assets. Well, how does he know that? Governments don't have balance sheets, with one exception. So he has no idea. No one has any idea. No one knows what governments own. But he just declares that to be so, which is just a blatant lie.

Well, there is one country, and that's New Zealand, where the government has a balance sheet. So I looked it up, and lo and behold, government assets exceed government debt manifold. So this is the sort of skullduggery, the sort of reprehensible dishonesty which is ideologically motivated and the latest way to attack free market capitalism and promote communism and socialism by, just as they've always done, just resorting to lies and, frankly, fraud.

WOODS: I like – well, I like everything you just said, but in particular, your point about looking at basically quality of life rather than number of dollar bills when trying to understand what's really happening in the world. Because if a rich person starts off with a fancy car and then 30 years later has an even fancier car, all right. I mean, that's somewhat of an improvement. But if we go from zero to one, to borrow an expression by Peter Thiel – if you have a person who goes from no car at all to any kind of car, that's an infinitely greater increase in his well-being, and that's what we're seeing. The rich, yeah, they have more of stuff that they already had. They have more entertainment. They can be transported around the world somewhat more luxuriously. But now, a lot of average people can be transported around the world at all. This is what's remarkable. Not that somebody has a yacht that he can land his plane on, but that most people in the world, or at least in the developed world, now have access to air transportation, things that would have been out of science fiction some years ago. So that's how we ought to be thinking about this.

LOUW: Of course we should. We should be realizing that the amenities of life, as I call them, the access to communications, motorized transport, food, crockery, cutlery, entertainment, television, has gone off like a rocket for the world's poorest people. Take something very simple: the biggest sports event in the world, the World Cup final. When I was younger, the only people who saw the World Cup final – I'm nearly 70. When I was a kid, the only people who could ever see a World Cup final were people who could afford to actually go to Wembley Stadium or wherever it was, and sit there.

WOODS: Exactly.

LOUW: We were talking about maybe 30- or 40-, or if you're very lucky and there was lots of standing room in those days, 50- or 60,000 human beings. Then came early television, and a few people in a few countries who were wealthy could watch it. So now it went up to maybe a few hundred thousand or a few million. Today when the World Cup happens, over half of humanity watch it live in Technicolor for virtually free. They don't even have to go to Wembley Stadium or to Yankee Stadium or somewhere. So that's just sport and entertainment, that it has reached people who previously would have had to trouble across the planet to go and watch a World Cup final. Now everyone watches it live in Technicolor.

But take more: motorized transport. When I was a kid, the only very, very wealthy people had a car. We didn't. We used buses and we used bicycles and we used horse carts. I was taken to school in a horse cart. And now, virtually all of humanity drives down the same road as Peter Thiel, who's I know one of your friends or colleagues – or Elon Musk or somebody drives down the same road at about the same speed, gets to the destination in about the same time, but does so slightly less luxuriously. But the level of equality that has – This is everything you look at: access to electricity, access to information, access to literacy, access to banking and financial services, access to credit, and so on. Every single thing that determines quality of life has had not only an astounding growth for the world's masses, the poor, but has brought the poor increasingly close to the rich.

Probably most important of all is life expectancy. Since biblical times, the richest people lived for three score years and ten, 70 years. That's stayed the same. It's pretty much like that now, slightly more. It's gone up to maybe 80. Meanwhile, the poor who were living at something like 25, 30, 40 years life expectancy are now 65. They're catching up. So the poor are now living as long as the rich. Now, what does that tell you? It tells you have safe water. They have sanitary living conditions. They have medical care. They have painkillers. They have antibiotics, etc., etc.

So the poor are now closing the gap on the rich. Take you, for example, you and Peter Thiel. Peter Thiel is much wealthier than you – or you know, Bill Gates or somebody. How different really is their day-to-day life? You sit in a comfortable chair. You use a microwave. You use a good, quality mobile phone. You go to the same movies. You see the same world sport events. Your quality of life has caught up, somebody with your income, with that of Bill Gates. And the laborer who cleans the street outside your building has caught up with yours at an astounding rate. And so this idea that inequality is growing is just clearly and objectively nonsense. It is refuted by every objective index of the quality of life: square meters of housing, access to potable water, use of motorized transport, access to pensions, health care, and so on and so forth.

WOODS: All right, now let me speak as the devil's advocate for a moment, and let's think about some of the numbers that are thrown around in the United States when people will talk about income inequality in particular. And they will say that if we look at, let's say, the salary earned by a CEO and we compare it, we create a ratio between that and one of his – maybe one of the people who sweeps the floor – we find that that has gone from – I don't know what the numbers are, maybe 40 to 1 to 120 to 1.

And they'll say that that is a clear indication that in terms of income inequality there's no denying it, at least in the United States. What kind of answer do you have for that?

LOUW: Well, firstly, let's understand that they are obviously lying about income and they're also looking at a number that is not a relevant one. The poor person now has welfare and pensions and savings, direct and indirect, and government welfare funding that enables them to be — that must obviously be considered wealth. If you live in Germany, you have to be considered wealthy to the extent that you have an entitlement to housing and welfare and incomes and medical care and so on. Now, you might have zero income. I presume Linda Gates — I don't know, does she have zero income? Let's say for argument's sake she does. Does that make her poor?

So what they do when they talk about these income levels is a number of trickery games they play. One, as Thomas Sowell points out, is that they refer to household income. And he says whenever you see the word household income, be immediately suspicious. Why are they not talking about personal or individual income? And the answer is as people get wealthier, fewer people live in a household. Children get their own apartment or house or whatever it might be. So although the wealth of individuals goes up, the income of the household might appear not to or to go down.

But the point you I think were getting at earlier, and I don't want to lose it, is that if you have 100 people all on \$100 or on \$0, you have total equality. If 10 of those people rise up to \$200 or \$300 or \$400 or \$500 and the people at the bottom are no worse off, there's no reason to be concerned about that. We should be pleased about that. We should be pleased about the fact that in India and China and Indonesia and Malaysia, billions of human beings rose from destitution. And one person rising from equal destitution brings about growing inequality. Well, of course. If some people are getting wealthier and they are doing no harm to those who are at the bottom, but those are also getting wealthier but at a different rate, that should be celebrated. What is happening in India and China or in the United States, for that matter, if the United States has more and more and more billionaires and the gap between more and more people rising compared to people rising more slowly grows, so what?

And bearing in mind that the reason Donald Trump wants a wall — why? Because the poor of the world know that the best place to be poor is where the world's richest people are. The poor of the world always will risk and often lose their lives to migrate to the place in the world where the most billionaires are. That's where they want to go. Nobody is trying to flee from South to North Korea. Nobody is trying to flee from America to Cuba. What you want to do if you're a poor person is to go where there are lots of rich people and where the so-called income gap is at its highest. The reason is the potential for upward mobility is greatest under those conditions.

WOODS: What about the potential counterargument that you're not crediting the welfare state sufficiently for the increased access to medical care and the other things you mentioned?

LOUW: Well, firstly, I did, but this is an interesting paradox of socialists, people on the left, is they say they believe in a welfare state. They believe in a state doing more, in nationalization and government undertakings and projects and enterprises, government ownership of parks and wilderness areas and hospitals and

schools and so on. Yet when that gets achieved, interestingly their own method of calculation suggests that there's more poverty.

Let's put that very simply. Assuming you have a pure socialist system where the government owns and runs everything, it will appear as if there is absolute destitution, even though the people might actually be hypothetically well off with access to government goods and services. So socialists strangely enough contradict themselves: when more of what they say they believe in is achieved, they then say that there is more poverty and more inequality. So they don't actually interestingly regard their own accomplishment as having achieved anything or having any value.

Now, in this actually I agree with them. I think what they strive for and achieve and have achieved is of very little value. I think it's of more value than socialists do. In their calculations, Piketty and Oxfam and others, they value their own accomplishment at zero. In fact, Piketty specifically says so. He says everything the government earns and does is worth nothing. That's how he reaches his absurd supposed levels of inequality, is by considering welfare to be worth nothing.

So I am a hardcore free market Misesian or even more pure Mises libertarian. However, that doesn't entitle me to hide away from the fact that lots of what governments do is valuable to people. Obvious example is the court system, judicial, policing, a road, an infrastructure, a park. So lots of what the welfare state does – education, for example, alleviating illiteracy – is useful and valuable. I would think there are better ways of achieving better results at better prices, but nonetheless, that doesn't stop me from saying the court system, the judicial system is better than there not being one, and government schools are better than there not being government schools. And other forms of welfare do have benefits. The world isn't binary.

So those benefits, I attach value to, interestingly, and the strange thing about it is that people like us who aren't socialists forget that it does have a very considerable value and it should be added into the equality calculation. And the strange thing is we play right into the hands of the socialists when we appear to agree with them that socialism has no value, because that's how they do their calculations. They attach no value to what their ideology succeeds in achieving.

WOODS: I realize this is almost absurd to ask you to do, given that we could obviously have a whole episode on it, but before we close, can you just say a few words about what politics is like these days, 2017, in South Africa? I'd bet my listeners have no idea. Well, I don't want to – some of them are smarter than I am and they do, but I sure don't.

LOUW: Okay, let me go and summarize it as best I can, but I will have to assume some sort of knowledge about the South African situation. The ruling party, the African National Congress, is actually not a party at all but an alliance, an alliance of the major trade union movement called Cosatu and the South African Communist Party. That alliance governs South Africa, and that alliance was a very silly thing to perpetuate after apartheid was defeated, because it was an alliance against a common enemy, apartheid, where the parties to the alliance had nothing in common. Trade union movement should be an independent activity from the government of the

day, as the Brits found out when the Labor Party parted ways with the trade union movement, and in other countries they never had that sort of alliance to start with.

So it's very unstable. It's in crisis. It's terminal at the moment. And in the process of crisis, the governing alliance, which people called a party, is desperately trying to hold on to power. Now, one of the ways it's doing that is it is playing the race card. It is saying that white people still own everything and there has been no what's called transformation, which really means racial transformation – in other words, black South African advancement. And here, incidentally, Tom, the discussion we've just had about inequality is 100% the same as the discussion in South Africa, where instead of there being inequality just of human beings in South Africa, it is inequality of races. And the rhetoric is, the meme is that white South Africans still own everything and black South Africans have made very little progress.

Now, that would be a very bizarre thing, as Thomas Sowell and Walter Williams and other have pointed out, to say, that a black government, democratic government gets rid of the crime against humanity, apartheid, and it has no benefits for black people. Well, that's clearly and obviously nonsense. The benefits have been substantial. Black South Africans have advanced also amazingly from well below a million middle class black South Africans when we became independent under Mandela in 1994 to now something like 6.5 million. In other words, there are now more middle class black South Africans than the total white population. And yet, the rhetoric around here, like with Oxfam and Piketty, is there's more inequality, the poor are getting poorer, the rich are getting richer, and it is the same nonsense and the same doctoring of numbers. By every objective criterion, black South Africans have advanced amazingly: life expectancy, literacy rates, access to housing, safe water, motorized transport, and all of the ways in which one measures quality of life.

What has happened in the meantime is a formerly largely white party called the Democratic Alliance has grown substantially and now, for example, the mayor of the city I'm speaking from Johannesburg, is Herman Mashaba, a member of that party, and he was until recently my chairman, chairman of the Free Market Foundation, which is a hardcore libertarian think-tank in South Africa. And he is a libertarian, he calls himself one. So Johannesburg's mayor is now a libertarian.

And so we have now a turbulent political state of affairs. Lots of racial tension is rising. There's desperation on the part of the parties that are losing power to find ways of holding onto it. One way is to accuse white people of not working towards racial transformation. I think this is a cathartic time. In a way, it's maybe more serious than the transition from apartheid to Mandela. And I'm fairly optimistic that we have to go through quite a lot of pain as we break up this alliance and the political member of the alliance, the African National Congress, becomes another moderate centrist, Mandela type of party, and severs its ties with the very radical trade union movement and communist party and jettisons them and lets them find their own future.

So South Africa is in a crisis. We have economic stagnation. The rest of Africa is growing at very impressive rates. In fact, the highest regional growth rate in the world now is black Africa or Sub-Saharan Africa. But South Africa is really suffering, and

there's very, very high levels of unemployment, economic stagnation, political instability, and rising racial tension.

WOODS: What is the website for the Free Market Foundation? I'd bet some people would be interested in looking at it.

LOUW: Yes, I'd encourage people to and I'm going to tell you in a little moment why specifically. It's FreeMarketFoundation.com, so it's very easy. You maybe can post it on your website too. But one reason to visit it — let me just mention this quickly if I may, Tom — is that we have a very, very exciting project called Khaya Lam, which is Zulu meaning "my home." And in most of Africa — for that matter, most of the third world, most of the developing world, most of China, for example, Indonesia, but certainly in South Africa — people, indigenous people do not own their land.

We have this project whereby for less than \$200, we can go through the legal processes of giving the people who occupy land, which is black South Africans, a title to it. They become freehold owners of that land. At the moment, they don't. In other words, they still live as they did under apartheid without owning their land. And we have the project, which anyone who goes to the website can read about. It's very exciting. And we are getting people all over the world who are helping us to empower black South Africans by the millions by going through the paperwork. We've persuaded the government in different parties in different cities to not charge anything for the land. In other words, the land is being regarded as if it already belongs to the occupant. All we are now doing is doing the paperwork to give them the title deed that says so. And instead of going home with a bottle of brandy, people are going home with a tin of paint.

So that's our website. I'd encourage anyone to visit it and to consider making a contribution to a very exciting project that gives for \$200 somebody an asset worth \$2,000. There's a tenfold multiplication in the benefit to the recipient, and it brings about empowerment and justice. And we then want to spread into the rest of Africa, and frankly, the rest of the planet. The same should be done everywhere, really.

WOODS: Well, I'm certainly going to be linking to that at TomWoods.com/876, our show notes page for today. When we finish up here, I'll get a link or two from you on your work on inequality while we await your book, which the world desperately needs. Thank so much.

LOUW: My pleasure to be with you, and you do a great job. It's great honor for me to be your guest. I'm suitably honored.