Mind Your Own Business
Guest: David R. Henderson
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WOODS: I am very interested in this speech you gave earlier this year called "An Economist's Case for a Noninterventionist Foreign Policy." As I was just mentioning, this is our World War I week this week, and I thought it was appropriate to talk about nonintervention in light of the disaster that was World War I. But I would like you to start off by first telling us the circumstances in which you delivered this talk. You weren't giving this talk to a group of Ron Paul supporters.

HENDERSON: The Naval War College, based on the East Coast, has a special 11-month course for foreign Navy officers, and they had a trip out to the West Coast to see various sites. One of them was to come to Hoover and spend just half a day there. One of the national security fellows, a guy in the Navy, asked me at the Hoover Christmas party if I would be willing to give a talk, and I said sure. So the speakers in order were: Admiral Gary Roughead, former Chief of Naval Operations who is now a Hoover Fellow, then me, then Bruce Thornton, who is kind of like Victor Davis Hanson, he's from the same school, has similar views, and then George Schulz, former Secretary of State with a wrap-up.

WOODS: Oh, my!

HENDERSON: Yeah. There were 47 officers from 44 countries, so I gave a talk similar to talks that I had given, but I had never given it to this particular kind of audience, and so of course, I was a little nervous.

WOODS: I would be, too.

HENDERSON: Right. But what was really striking was how well it went.

WOODS: That was my next question. How did they respond to a speech like this?

HENDERSON: I think I'm good at reading audiences. That's why I'm good at teaching. That's why I love teaching. And when I can see faces, I can see what they're getting, and so what I do with an audience of almost any size is look at people who see me beaming and enjoying it, and I feed off their energy. And there were at least four or five people, and I don't know from what particular countries, and so I got more than a polite applause. I got some good questions, and I thought it went very well. Then afterwards I talked to some people, and the Bangladesh guy loved me.

WOODS: Oh, interesting.

HENDERSON: I like really connecting with audiences and trying to establish that kind of relationship early on, so as they came in the room, I had already gotten there early. I just stood there, almost like a reception line, and shook hands. I think that's just an important part of what you do to try to connect with people, especially when you're going to say things that they probably weren't expecting to hear. So one of the guys who came by in the line was from the Israeli Navy, and I thought, well, gee, it will be interesting to see what his reaction is, because I basically called for getting out of the Middle East. And what was really striking was afterwards how friendly he was. So that was kind of interesting.

WOODS: How about that? Do you think there's been a softening in terms of people's receptiveness to ideas like this over the past 10 years?

HENDERSON: I do. And here's the other thing: I don't come across as someone on the left. And almost everything they have ever heard from intellectuals about foreign policy is from people on the left—by the way, who have a lot to offer, many of them. But they don't make the arguments I do. I made kind of a Misesian, unintended consequences argument, you know, how he talks about how in domestic policy you impose a price control, which leads to this problem; you can either get rid of the price control, or you can just intervene further. Governments tend to intervene further, and that causes new problems. I used that kind of argument in foreign policy, and I used a Hayekian, and I named Hayek explicitly, a Hayekian knowledge argument. Can governments who already know so little about their own economy in their own country, can they know enough to intervene successfully in a country that they know even less about? And those arguments just make sense to a lot of people.

WOODS: Yeah, that's why I've had, I think, some success reaching out to people like this. Because for one thing, when I was growing up I used to *be* a person like this. I more or less bought into a lot of what I didn't realize at the time was basically neoconservative propaganda. They have never heard somebody make arguments like the type that you and I would make with regard to foreign policy, and certainly they have not heard antiwar arguments coming from somebody wearing a coat and tie who drives a minivan, is as bourgeois as one can possibly be and all that.

I want to look at some of the themes that you raised. Of course, one of our key themes is the connection between war and the expansion of the state, the expansion of things that

conservatives are supposed to be opposed to. But they may say that connection is just not clear enough. Yeah, war leads to higher taxes, but if that's the price you have to pay for freedom around the world, we'll have to pay it. What else can we say about the relationship between war and big government?

HENDERSON: Well, as I said, I think it's been a couple of months since I gave the talk, but I think I did talk about this in the U.S. context, and I said, look, this is the U.S., so bear with me since you're not from the United States. But I pointed out that Prohibition was to some extent a result of the First World War, and I drew on some work by Robert Higgs in his book *Crisis and Leviathan.* In the First World War, the government imposed price controls on grain. Well, you get a shortage of grain. They put the government in the front of the line to get all the grain they wanted. It was very hard to justify allowing grain to be used for alcohol if they were rationing it. So they didn't allow it to be used for alcohol. So we kind of had a mini-Prohibition during World War I, which softened people up for the real Prohibition.

The other issue is tax policy. The top tax rate about a year before the United States got into World War I was 7%. By the time the United States emerged, it was 77%. We think of Treasury Secretary Andrew Mellon in the '20s as being this great hero, which he was for cutting rates bit by bit, but he got them down to 25—in other words, over three times what they were a year before the United States entered World War I. Similarly, World War II we emerged with, I think, a 94% marginal tax rate that fell all the way down to 91, and we were stuck with 91 until the Kennedy/Johnson tax cut of '64, which lowered the top rate to 70. So I just looked at those kinds of things. I looked at withholding, where tax withholding was introduced during World War II because Beardsley Ruml, who had been the Chairman of Macy's, argued that people are willing to pay more when they pay on the installment plan, and that's how we got withholding. So it's just those kinds of things. Rent control in New York, a temporary measure during World War II, still with us today.

WOODS: And, of course, there's also an ideological legacy, because if we can mobilize all our resources to go fight World War I, then we can mobilize them for domestic purposes. And of course, FDR borrows from that during the New Deal. It's like an analogue of the idea that if we can send a man to the moon, then we can do X, Y, and Z.

HENDERSON: Right, and I think in the talk I quoted Katrina van den Heuvel, who was the editor of *The Nation*. In the first month after 9/11, she wrote a piece in *The Nation* saying that this mobilization of the American people and of the American economy is a bit of an opportunity for the left, and she recognized this. The difference is, she liked it and I hated it.

WOODS: Exactly. Now, a lot of times people think that intervention, whether it's foreign or domestic, whether it's regulation in the domestic economy—they think this leads to stability. More regulation means more stability. I am having Charles Calomiris on the show next week, and his argument is that more banking regulation in the U.S. has meant more *in*stability for various reasons. Forbidding banks to have branches makes each bank less stable because less

diversified. Well, likewise, you argue in the piece here that U.S. intervention, for example, in Latin America has not yielded more stability. There would be more stability without the intervention.

HENDERSON: Right, I wrote a piece, which I didn't reference in my talk, in the *San Francisco Chronicle* around 2001, a little after 9/11. I pointed out that the most well-funded terrorist organization in the world at the time, measured by standard measures of terrorism, was FARC, which is a Colombian terrorist group of the left, and they got their money—in one year they had $600 million in revenue—because of the drug war. And here's why. You've got Jose Sixpack trying to grow coca, and he needs protection. Well, where does he go? He goes to people who are good at protection from the government, and one of them is FARC. So he pays them some protection money, and so do thousands of other coca farms, and then they do two things. They provide protection for him but also use some of the surplus to fight the government. And you had a very, very unstable, Colombian society. After I wrote the piece, a Hoover fellow—I think it was Charles McClure, who used to be in the Treasury under Nixon, I think, emailed me and said that was a good article. I had a friend who was a high-level judge in Colombia who was murdered, and this is the kind of thing that was happening in that society. It's of course happening in Mexico. It's one of those factors behind the three countries from which kids are fleeing to come into the United States, the drug war, and often it's at the behest of the United States where the U.S. government will say, here are the carrot funds to fight the drug war. Here is the stick. If you don't fight it, we will make it hard for you to export to our country.

WOODS: A lot of the arguments that you make are arguments that, as you say, would have a natural appeal to the type of audience you were talking to, but I would be inclined to think their response would be that yes, yes, Henderson, these are all good arguments, and in normal times we would want to take heed of them, but these are not normal times. Now, you notice it's never normal times: it's terrorism, it's the Cold War, there's always some reason we have to overlook these arguments for the sake of the national interest. Look, they'll say, it's very important to note that warfare and preparation for war deforms the economy and leads to more government spending, and taxes, and debt, and all that. We get that, but there's the Soviet menace. What do you expect us to do?

HENDERSON: Right, and by the way, earlier on you mentioned about where you had been politically. Well, I had been there, too. I grew up in Canada, and in Canada Winston Churchill was a hero, in English Canada. And he was one of my heroes. Ao it took me a lot of years, and it was bit by bit, and it was, you know, think of a trend line with drops, and I would be noninterventionist one week and then interventionist the next week, but the trend was non-interventionist just as I learned more. So the line I've used when I've given talks to other audiences is that I was a cold warrior, and I shouldn't have been—because, in fact, now that I understand more about Russia, now that I understand they lost 1/8th of their population during World War II, it's quite understandable why they were nervous about the West, and they were

expansionist, I think, for a short time, and then they weren't. And I think one of the biggest mistakes the United States government made was NATO.

And by the way, I think anyone who makes the noninterventionist case has to contend with the best arguments the other side has. And I think the best argument they have, or the best example of a good war, to use Studs Terkel's term, is World War II. So I pointed out in my talk that in the Hoover—okay, do you have time for this story?

WOODS: Oh, I want the story. Forget the time. I want the story.

HENDERSON: Okay, so we are sitting in the Hoover building, and I have this big, thick book, and I will tell you the author of the book in a minute, and so I said, if you wander around the campus, and you go to the fellows' coffee room, you will see where we have coffee every afternoon. I go there when I'm up at Hoover. And I said if there are 11 people in the room, and I'm one of them, and we get onto World War II, it's 10 to 1. It's 10 people saying World War II was a good war for the United States to have been in, and me saying no. I said, now, 10 to 1 I get outgunned, and there are a lot of smart people in that room, but I said I've got this little piece I brought along that helps even the balance. It's this big book. It was published a few years ago by the Hoover Press, and it's written by a guy whom you might have heard of. The building you are in is named after him, and some wisecracker at the back said, J. Edgar Hoover? (laughs)

WOODS: (laughs)

HENDERSON: And I said the right last name. It's Herbert Hoover, and I quoted a couple of passages. He was kind of, you know, I don't know if you'd seen Brad DeLong live-blogs World War II. Well, Herbert Hoover was live-blogging World War II, really, literally, except the blog part. He was writing about it. And I quoted these passages where he is saying let Hitler and Stalin duke it out. Don't get involved. They will destroy each other. And it just gave me credibility to make that case. I have been in other debates in one of these 10-to-1 debates once. I was kind of caught off guard. A friend who was on the other side of it said, okay, so if the United States hadn't gone into World War II, what would the world have looked like? And I said, well, we've got to speculate a lot, but here's I think what would have happened. Hitler would have had a little more power in the East, you know, this and that. I don't think he would have been able to hold onto Russia, and he said, you don't think? You don't know. How can you advocate not getting in involved in World War II when you don't have a really good scenario of what would have happened instead? And I didn't have a good answer.

I'm walking along on campus later with my friend, and I said, wait a minute. What do you think would have happened? Well, I don't know. And I said, well, it's symmetric. If you're going to make a case for the war, you've got to have a good case for what would have happened without the war, so we're equal here. And then when you think the usual argument is when you don't know what's going to happen with an intervention, don't intervene. We're not equal. I'm a little ahead on this one. So anyway, I just laid that out. And again, these are things they've

never heard. I think the way Americans and Canadians think about World War II is they've got status quo bias. They can't imagine what would have happened without it. They know that the guy that they were fighting—the two guys in Japan and Germany—were really bad guys, and that's enough. And of course, what they forget is that they allied with another really bad guy, Stalin, who is comparable in his mass murder, at least in scale if not exact percentage, to Hitler, and so this is the argument we have to make, and I think I did a better job than usual of making it.

WOODS: George Kennan said, looking back on the two world wars, that if we could have had that decision to enter World War I over again, then he says clearly the case against intervening in World War I is obviously against. Because when we look at what's happened to the world since, it's just been a disaster. It yielded World War II. We wound up with a situation in which instead of the Kaiser, we wind up with a complete raving lunatic. With World War I we see that the consequences were so bad in so many ways. There are historians who say there might not have been a Bolshevik Revolution. There might not have been this or that. There might not have been the Nazis. So you're right. When you say that in general the rule of thumb ought to be that when you don't know what the consequences are going to be, then you withhold judgment, and you abstain from intervening, you have the classic example staring you in face of World War I, which gives rise to World War II to begin with. In fact, Ann Coulter inspired a t-shirt that says, "War Never Solved Anything," and then it says on the back, "Except—" and then it lists 100 things—slavery, fascism, etc., etc. Well, of course, we know that slavery was ended peacefully almost everywhere, and then in terms of fascism, fascism got started because of war. It was the idea of modeling domestic society on the World War I wartime experience. So they have such short memories they can't think in terms of where these phenomena came from. They came from the last intervention you boneheads advocated.

HENDERSON: Right. Now, World War I, of course, is the easy one to make the case against and for all the reasons you said. Just to go back to World War II. We're stuck, right? We have World War I. We don't have a time machine. So what do you do? But I completely agree with you. Or to take a more recent case, look at Iraq. People are talking as if the things that George H.W. Bush, Clinton, and George Bush did—and Obama, but mainly those first three—had no role in this. I mean, you have a very nasty man in charge of their society but it had some degree of prosperity. He was ruining it with his war against Iran, but still it had running water. It had sewage. It had all these things. It had hospitals. It had chemistry classes. And then when you have the United States government and other governments, but mainly the United States government, bombing power plants and so on and breaking down those facilities, and people can't get clean water anymore, and there's disease, and then the sanctions come in run by the United States, United Kingdom, and France, and forcing them, and then they can't get parts to repair. It's not like they can't. It's just as with most government things it slows it down. You've got to go through all these procedures to say this part is not going to be used for terrorism. You can't get modern chemistry textbooks used in classes in Iraq because they might figure out how to produce chemical weapons. You have all these things under Bush I and mainly Clinton, and

just early on under Bush, that are helping to destroy that society. Of course, Saddam Hussein was doing his share on that, too, but the point is these things have histories.

And then I even, by the way, talking about unintended consequences, got into well, why do you think Iran became an enemy of the United States? And I tell them about my interaction with James Woolsey, the head of the CIA who came to the Naval Postgraduate School to talk. He said that the war against militant Islam started in November '79 when those people in Iran took over the embassy. I sat up and I said, Mr. Woolsey, I think you're 26 years off. I think it started in 1953, under Operation Ajax, when newly elected President Eisenhower had Kermit Roosevelt, a relative of Theodore Roosevelt, and Norman Schwarzkopf Sr., the father of Norman Schwarzkopf Jr., spread all kinds of money around on the streets of Tehran to try to get people to oppose Mossadegh, who had nationalized some oil companies. And they did. And then the Shah came in, and I pointed out that Jimmy Carter, when he was questioned about this by a reporter, said well, that's ancient history. And I was ready with my little laugh line. Has anyone here ever taken a course in ancient history? This is a literate audience who knows that 26 years ago is not ancient. Imagine that in 2027 someone refers to 9/11 as being ancient history. That person would be thought of as a lunatic.

WOODS: Of course. You're right about the idea that there's no history here. In Iraq there was, for all of Saddam Hussein's moral failings and what a barbaric human being he was, nobody disputes this, there was no chance at all, I mean, none whatsoever that the current situation that we're seeing there would be occurring. No one feared that under Saddam. They said a lot of things about Saddam, but they never said that there was the likelihood of this kind of outcome. That is one good thing I am happy about with regard to Rand Paul, that he said it is idiotic to blame Obama for this. You cannot blame Obama for everything. It's like the conservative movement these days is—they used to be smart people. I didn't always agree with Bill Buckley, but he was a smart guy, and he published smart people in *National Review*. But it's like to be in the conservative movement today, I'm sorry, I don't mean to insult people, but you have to get a lobotomy first, because everything is Obama's fault. I've mentioned this on the show before—are you on Twitter?

HENDERSON: I don't tweet as much as I should, but I do, yeah.

WOODS: Okay, well, I'm on Twitter, too, and I've got somebody in my feed whom I should just unfollow (I usually reciprocally follow when I have time). I should unfollow this person. It's just GOP talking points all day long, and all during the 2012 election she counted down each day the number of days until we got our country back. And I thought, your standards for what constitutes getting your country back are incredibly low if you think the victory of Mitt Romney is going to bring that about.

One last thing before I let you go. There's so much more we could talk about, but I didn't realize this. You made an interesting point that OPEC, the Organization of Petroleum Exporting Countries, was actually an unintended consequence of U.S. import quotas. How so?

HENDERSON: Yeah, and by the way, if you want to check this in more detail, I am also the editor of the *Concise Encyclopedia of Economics*, which is free online. Go there and your audience should go there, and check OPEC, that's the name of the article, by an economist named Ben Zycher, where he lays it out. He's the first person I knew this from, and I made sure he put this in the article. Eisenhower, towards the end of his administration, imposed import quotas on oil around 1958, '59, and he favored the countries in the Western Hemisphere, and especially Mexico and Canada. I think maybe Venezuela, if I remember correctly, and so these Middle Eastern countries were upset. They formed OPEC. In other words, OPEC was a response to a previous intervention. Now, it took them all through the '60s to become powerful because they had only four members at the start, but they did become powerful in the early '70s, and of course, they almost quadrupled the price of oil over a few months, but yes, it was an unintended consequence of U.S. government intervention. Maybe we can call this Henderson's Law of Intervention. Although maybe we should call it Mises's Law. I'm not sure, but that is when you're kind of working backward. It's kind of like Mises's Regression Theorem working backwards that when you see a problem, ask yourself was there a previous intervention that led to it, and was there a previous intervention that led to that one? Maybe you can do a Mises-type Regression Theorem on that.

WOODS: Indeed, is there a way—I suppose Twitter would be one. Is there a way people can follow you online?

HENDERSON: Well, my economics, yes—EconLog, so they would go to www.EconLib.org, and look for EconLog. Brian Kaplan and I are co-bloggers, and we have some guest bloggers. Now, that tends to be on economic issues. If you want to see a lot of what I have written on war, I used to write regularly on antiwar.com. I have done so less now recently because other opportunities have come along, but go to David R. Henderson at antiwar.com, and you can quickly find my archives.

WOODS: All right, we'll do that. We've had Justin on the show a couple of times, and I'm always telling people to support antiwar.com because it's so important. I'm going to link in the show notes to this episode to the speech you gave so people can see what was said to the people in that room. Very important and exciting that you did that. Thanks for your time today.

HENDERSON: Thanks, Tom, and by the way, I've enjoyed a lot of what you have done. I really enjoyed your story the other day about the guy in the church who couldn't figure out how 300 people could come up with $250.

WOODS: I know, it's unbelievable how the state emasculates us all.