



Who Creates Jobs?

Guest: George Reisman

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George Reisman is professor emeritus of economics at Pepperdine University.

WOODS: I had somebody say to me, I guess at least a week ago, you have to have somebody on to deal with this statement by Hillary Clinton, and I thought of you, George, the first person I thought of to refute this. Now she is claiming that she misspoke. They always say that, right? They always misspeak when they get in trouble. But even if we accept her explanation, the explanation still isn't any good. Her initial statement was, don't let anybody tell you that corporations create jobs and all this, and she said that this is trickle-down economics. She claims that what she meant to say was, don't let anybody tell you that tax breaks create jobs, but it's still pretty close. She says that trickle-down economics, so-called, has been a stupendous failure. Can you clarify all this? What does she mean by trickle-down economics anyway, and how in fact are jobs created? Even though, of course, you and I don't really think in terms of job creation, but that's the way they talk. So we'll take their language for now.

REISMAN: We can think of jobs being created with people having gainful employment, and the overwhelming bulk of the jobs are created by business firms. All you have to do is realize, I think there's a grand total of about 120 million people employed by private businesses and roughly another 20 million employed mainly by the government, and so at least six out of seven jobs are in private business. It's sort of so obvious as to be ridiculous. If a new business arrives in a town, and they advertise for workers, well, these are jobs that didn't previously exist in that town, and they're created by that business. If a business closes, the jobs that were previously there are gone. And it's actually the same kind of degree of obviousness if she were to say, don't let anybody tell you it's farmers that grow crops or women that have babies.

WOODS: (laughs) Yeah.

REISMAN: That same look of smug self-satisfaction. She's just an ignoramus. And there's no way to misspeak like that. It's a totally different subject. If she's talking about tax breaks, well, that's another issue, but that's not what she said. She said, don't let anybody tell you that corporations and business create jobs. I think that's a direct, verbatim quote.

WOODS: Yes.

REISMAN: Well, they create paid employment, and they do that by means of people saving. Their investors have saved. They have accumulated capital. Business firms start with a certain capital invested, and one of the things it does is go out and hire employees. This taps into wider issues. The Left has this violent hatred of the rich. The rich is the 1%, and all of these other people are the 99%. It's the wealth of the rich. It's not in their larders. It's not in their pantries. It's invested in the means of production, including in the funds that provide payrolls. And so the wealth of the rich is the source of the demand for the labor of practically everybody and the source of the supply of the products that everybody buys. And so the more rich people that we have whose wealth is in the means of production, the higher will be wages and the more abundant will be the supply of products and the lower their prices. The Left, they look at this, and it's too complicated for them. They call this trickle-down. They can't hold a few propositions together, so they say trickle-down.

Now, they have an alternative theory of how to improve the standard of living. They want higher wages and higher incomes for the poor, and they want it now, and they're just going to grab it. Their theory is not trickle-down. It's loot and plunder. That's how they think you improve the standard of living. You tax the wealth of the rich. So they can't open more factories, they can't have more stores and warehouses and whatever, they don't have the funds to pay wages. It's being taken over by the likes of Hillary and Elizabeth Warren and Obama. And that's how people are supposed to prosper. And this is just lunacy.

WOODS: Well, they think, well, there's two things I want to raise. I will do one at a time. Let's try to think of the most dignified way to express whatever it is that they're trying to say. They could be saying that what really stimulates the economy is when you get welfare payments that go to the poor. Then they have money to spend. They think that redistribution puts money in the hands of people who are likely to spend it. If we don't have redistribution, we have it in the hands of people who are more likely to save it. This is like low, low, low-level Keynesianism on a very vulgar level. But I think it's what all the media believes. *They* create the jobs: the poor, when they spend the money they get from their welfare checks, they create the jobs by spending the money.

REISMAN: I think it was Mises sometime in his seminar who gave an analogy. Imagine you had a restaurant with a doorman, and the doorman would give \$50 to every passerby provided they spent that \$50 in buying from the restaurant.

WOODS: (laughs)

REISMAN: You just don't grow rich by giving money to people who are generous enough to take your product. Your loss is the product. You've lost by this. What creates prosperity for business is not deadbeats spending money that they've taken from you. It would be their going to work and earning money and spending money that they've earned. And that way, in earning money, they are putting goods into the market. They are contributing to the supply of things.

So when they take goods from you, they've also put other goods in that if you don't get, other people get, and you get goods from other people. So there isn't this drain of some people doing the producing and other people kind enough to do the consuming. That's just ridiculous. You don't gain by giving money to people to buy from you. You're just losing goods by that.

WOODS: I think the other thing is, they think the rich mostly just dissipate their wealth on frivolous things and conspicuous consumption and private planes, and they think that it's naïve to think these people are creating jobs. They are just living luxurious lifestyles.

REISMAN: Yeah, well, they don't have any conception of where the wealth of the rich is. They think of the capitalist as always the fat man, and their view of the world is here's a capitalist with a plate piled eight feet high with spaghetti or whatever, and at the other side of the table is a starving worker with three beans on his plate, and the substance of their economics is you have to take some of this tremendous surplus away from the plate of the capitalist and put it on the plate of the starving worker. They have no concept of capital. They have no concept of wealth being invested in the means of production. The wealth of the rich is not on their plates. It's not in their refrigerators or pantries. It's not in their personal consumer goods. It's in the means of production. It's in factories, department stores, warehouses, pipelines, freighters, airplanes, trains—means of production.

Now, that's where the wealth is, and that wealth is serving, as I've said, as the base of the demand for the labor of everybody and the supply of the products that everybody buys. All you have to do is think, where would you rather be a worker: in Mexico, where you have very few and pretty poor businessmen, or in the United States, where there are multi-billion dollar corporations competing with one another, including ultimately indirectly competing for your labor? Where is the average person better off? In a society with abundant factories, farms, mines, stores, whatever—and heavy competition for labor? Or in an impoverished economy where everyone is miserably poor? Obviously, it's to the self-interest of the average worker that there have been large numbers of very wealthy employers competing for his services and producing the goods that he buys. We benefit from the wealth of others.

See, the left is still in the dark ages intellectually. In the age of feudalism, if you saw a farmer's field, and maybe he had an animal or two, and you asked who benefited from that field and those animals in his barn, in those days people were producing for their own consumption and the consumption of their own families. They weren't producing for the market. So the only people who benefited from privately owned means of production in the context of feudalism were the owners. When you have a market economy, everyone is benefitting from a privately owned means of production who buys the products. I benefit from the property of Ford Motor Company when I buy a Ford car. I benefit even when I buy another car because Ford's competition influences the price of that car and makes it lower. As a worker, I benefit from the existence of Ford, Microsoft, all of the major companies—all the companies throughout the country. So that's setting the terms of competition for my labor. So the greater the number and

the greater the wealth of businessmen and capitalists and corporations, the more abundant the supply of products and the higher is the demand for labor and wages.

WOODS: Now, I know the answer is going to be somewhat similar, but I know you nevertheless will have a unique take on the subject of inequality, which just seems to be everywhere now. It wasn't that big of an issue—it's always been an issue for the Left—but now, the past five years or so, they just won't stop talking about it. What is the George Reisman take on the issue of income inequality in the United States?

REISMAN: Okay, there's two basic things I want to say about it. I think the sudden upsurge is the result of the expansion of credit by the Federal Reserve. The Federal Reserve creates new and additional money, and the major places that it goes to are the stock market and the real estate market. The people that own the stocks are by and large wealthier rather than poorer people, and the people who have real estate are by and large wealthier rather than poorer. So that's where the gains are concentrated resulting from this new and additional money. Now, it's remarkable to me that people don't go over the same statistics in the period of a collapse or a downturn. When the stock market collapsed, and the real estate market collapsed, had we taken the statistics on inequality then, I think we would have found much, much less of it. We have a substantial degree of artificially government-created inequality through expansion of the money supply boosting the prices of stocks and real estate. That's one major issue.

Another major point is that a normal inequality operates to the benefit of less capable people. We have people who are unequal in their capabilities. The way that less capable people are able to compete is by accepting a lower income. Imagine we have two workers, one of whom can produce 20 widgets in an hour, and the other who can produce only two widgets in an hour. What's required for someone producing two units to be competitive with someone who can produce 20 units? Well, if he's willing to take one-tenth the wage or less than one-tenth the wage, he's competitive and more than competitive. This is how less capable people regularly outcompete more capable people, by taking a lower income. Imagine that someone like Bill Gates is just a superhuman being who could do everything better than practically anybody else, including being a janitor. Imagine Gates can do the work of 10 janitors in the time they do the work of one janitor. Well, Gates is making millions of dollars an hour, or did. If a janitor is willing to work for \$10 an hour and Gates would be willing to be a janitor for a million dollars an hour, who outcompetes who?

WOODS: Right, so that—see the law of association, as Mises described it, completely escapes the vast majority of people, even though you observe this in your daily life all the time. There's so many truths about the economy that escape people even though they observe them every single day.

Now you can sort through the data, and you can say that some of the inequality may be fostered, as you say, because of artificial credit creation. I completely believe that. There are people who get crony contracts with the government—all kinds of things like that. But it boils

down to me this way: I'm an author and a public speaker, and the royalties that I earn from my books are in no way affected by the fact that somebody else has a private plane. The speaking fees that I earn are in no way affected by the fact that somebody has a yacht. Somebody's yacht is not stealing a portion of my speaking fees. These are completely and utterly separate. But I think the Left's view is that somehow this money is stolen, like the way the First World has stolen the resources of the Third World. I don't know how we got rich by stealing from poor people, but that's the standard view.

REISMAN: Right, now, I would disagree with you in one way. I would say that the fact that there are people who have yachts and planes not only does not make your income lower, it makes it higher. Because their ability to get yachts and planes motivates them to go on working, accumulating capital, improving the methods of production, and that's serving to increase the supply of products available to everyone and the demand for labor. So the fact that there are wealthy people who can have yachts and planes, that motivates them to do things that benefit everybody else. So it's not that there's no loss. There's a positive gain.

WOODS: I accept that—fair enough. Now, I want to turn to a completely different topic. This is an essay of yours that I actually read quite some time ago when I was much younger, and I guess you've republished it?

REISMAN: Yeah, I've republished it, but before we get to it, do I have time to say one more thing on inequality?

WOODS: Oh, please, you have all the time you want. Yes, please.

REISMAN: Okay, you know these efforts to raise the minimum wage locally to \$15 an hour or even just to \$10 an hour?

WOODS: Yeah.

REISMAN: They don't realize that they are depriving the least capable people of the ability to compete. See, right now if the minimum wage is \$7.25 an hour, the people who can make \$10 an hour, let alone \$15 an hour, are not looking to take jobs that pay only \$7.25. They are kept out of those lines because they can earn \$10 or \$15. Now, if the jobs that presently pay \$7.25 will themselves pay \$10 or \$15, then you're inviting the competition of these other people who are more qualified and able to earn more. And that's going to squeeze out the least qualified people. It's going to end up they just won't be able to find work.

It's particularly damaging to teenage blacks, who by and large have very, very low qualifications. They desperately need to get their foot in the door of employment. The minimum wage should be abolished at least as far as they're—actually it should be abolished for everybody, but if you wanted to make a compromise politically, they should exempt teenagers from the minimum wage. Then teenagers, maybe they would have to work for \$5 an hour. I don't know. But they'd get their foot in the door of employment. We'd see a dramatic drop in teenage unemployment, particularly among black teenagers, and they'd start to get

absorbed in the system. They can gain some work skills, and then after a while, they'd be earning more money because they'd be better qualified. So I wanted to be sure to say that.

WOODS: Plus, as an empirical fact, so few people earning the minimum wage wind up still earning it one year hence that it goes to show that it really is the first step to something better for people, but if they don't get the first step, they don't get to something better.

REISMAN: Right.

WOODS: The essay I want to talk to you about because you mentioned it to me in an email is this essay *Education and the Racist Road to Barbarism*. So in case there is anybody on the Left listening in who isn't outraged yet, wait till they hear the subject of this essay. I take away from this your central point that you believe it possible to demonstrate the objective superiority of Western civilization. That's an unfashionable opinion to take, George Reisman.

REISMAN: Yes, I know, and the reason I do that is I apply the standard of knowledge. Different civilizations are characterized by different degrees of the ability to acquire knowledge. Now, if you had a culture—I hesitate to call it a civilization—that has not reached the level of having writing, there is very, very little knowledge that they are able to transmit to the next generation. Everything has to be by oral tradition. A culture that develops the art of writing is in the position to transmit and to accumulate far more knowledge than one that hasn't.

If then you have another culture that's developed numerous scientific and mathematical principles, that's a higher stage of ability to acquire knowledge. If you have one like ancient Greece and Rome that has developed the laws of logic and the principle of causality, well, between logic and knowing that things have cause and effect, that underlies a vast increase in the ability to acquire and apply knowledge. And then finally, with modern Western civilization, we have everything that was present in Greco-Roman civilization plus tremendous advances in science and mathematics and all other lines of endeavor, and in addition we have a division-of-labor economy on a scale vastly greater than theirs and freedoms of speech and press. Both of these represent a great increase in the ability to acquire and apply knowledge.

In the division-of-labor economy, each specialized job has its own specialized body of knowledge. The steel workers have a somewhat different body of knowledge than autoworkers. Within steel working and automobile working, there are many further specializations, each with distinct bodies of knowledge. Everyone gets the benefit of all of the specialized bodies of knowledge just by buying their product. Each person has a specialized body of knowledge as a producer, and by virtue of that specialized body of knowledge he earns money. He is able to go and buy the product of all the other specializations and sub-specializations.

Contrast that with a Third World economy, where people are living as self-sufficient farmers and their body of knowledge entering into production is essentially that of one family or small village can hold—much, much less. And finally, the freedoms of speech and press guarantee that knowledge can be disseminated without fear of being stopped by the superstitions or

hysterias or whatever of anybody. So that is essential to the accumulation and dissemination of knowledge, too.

So it's by that standard—a common standard—by which we can measure all of the different civilizations and cultures, and on the basis of that, I would say modern Western civilization, more particularly in its Anglo-Saxon variant, is the most advanced civilization and culture in the history of mankind.

And then, moreover, it is open to everybody. When I say Western civilization, the Western should be understood as comparable to French in French fried potatoes or New York in New York state. You don't have to be French to love French-fried potatoes. Well, anyone can be a Westerner if his mind has absorbed the essential foundations of Western civilization. And from that perspective, I think of myself, my sympathies lie with Greco-Roman civilization, not with the barbarians who destroyed it. My ancestors, I am sure, numbered among the barbarians, but I identify with Greco-Romanian civilization, not my savage ancestors, and that should be what we would look for in every educated person. By that perspective, if an American Indian were educated and made Western civilization his own in his mind because he understood mathematics and science and the laws of logic and all of the other essentials of Western civilization, and when he was asked who discovered America, he would say Columbus, because he would understand that Columbus was the one who brought to the Western hemisphere his ideas and values—what are now his ideas and values.

What the politically correct axis is asking people to do is identify with their savage ancestors on the grounds that they are of the same race. They have no concept that civilization and culture are intellectual matters, and they are racist. They think that culture is racially determined. So Western civilization they think is the culture of the white man. Something else is the culture of the Hispanics or American Indians or Asiatics or whatever. And they don't see that everybody's ancestors, if you go back far enough, were savages, and we should not be identifying with our remote ancestors. We should be identifying with the highest level of civilization that can be found in the world today, and that's open, as I say, to everybody.

WOODS: How can people read this essay?

REISMAN: Well, it's available as a Kindle book on Amazon.com.

WOODS: Okay, so it's called *Education and the Racist Road to Barbarism*.

REISMAN: Yes.