

Reality Economics 101 with Don Boudreaux and John Tamny

- Speaker 1: [00:04](#) Welcome to the [Bill Walton Show](#), featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.
- Bill Walton: [00:24](#) Welcome back. As many of you know, I've had a long and reasonably successful career on Wall Street and private equity and mergers and acquisitions, and was CEO of the New York Stock Exchange company for roughly 14 years, and I had a pretty good career, proud of it.
- And then to my dismay, I come across something in the Journal not too long ago, an open letter to Oren Cass, who's been on the show and in it, I learned in the letter that Oren says that the buying and selling of companies, mergers and divestments, hedging and leveraging are not in themselves valuable activity, they invent, create, build and provide nothing.
- Their claim to value is purely derivative, and by improving the allocation of capital and configuring assets, they're supposed to make everything operating in real economy more productive. Well, I was dismayed to find out that this was there, and I wanted to get down to the man who wrote the rebuttal to Oren Cass, one of my long time forever heroes, Don Boudreaux-
- Don Boudreaux: [01:39](#) Thank you.
- Bill Walton: [01:39](#) ... Professor of economics and [inaudible 00:01:41] at George Mason University, he's author of several bestselling books, and he writes a very popular blog called Cafe Hayek, which I highly recommend if you want to do a deep dive into how the economic world really works. He's also a senior fellow with the American Institute for Economic Research.
- Also joining me to talk this through in my sorted career in private equity is John Tamny, long time friend, frequent guest, economist extraordinaire, editor of Real Clear Markets, editor at Forbes Magazine, also the author of the End of Work and They're Both Wrong, which we've talked about.

We also would like to talk about today in addition to what I think is sort of a light topic, this private equity diatribe, is a more serious topic, which is the economic and social and human costs of the COVID-19 and get John and Don's perspective on that and help guide us through. So welcome guys. Don, purely derivative value, [inaudible 00:02:51] doing anything, I'm surprised to learn that.

Don Boudreaux: [02:54](#)

Yeah, I was surprised to learn that too, but as you know, that's not a terribly unusual view. A lot of people have these suspicions of financial markets, because they don't understand financial markets, and they don't understand that capital has to be allocated from people who save it to places where it's productive.

If capital is not efficiently allocated, societies, economies don't work. Financial markets get capital from where it starts to where it belongs, where it provides its highest value. And failure to understand financial markets is not a good reason to ridicule financial markets. But a lot of people think if I can't understand it, then it must not be worthwhile.

And a lot of people, particularly who are smart people, they don't understand what's going on. They assume that therefore, that which I can't understand is something that's not valuable. And so a lot of people don't understand what you and other operatives in the financial markets do, and so they therefore conclude that what you do must not be valuable. You must be some kind of pariah, you must be living off of the productive fruits of some other people's behavior and production, not producing anything yourself. And of course, that's just mistaken.

Bill Walton: [04:08](#)

Yeah, I think even Tom Wolf who's pretty wise about these things accused Sherman McCoy of just taking pieces of cake and taking little crumbs off, and that was providing no value. John, view?

John Tamny: [04:21](#)

Well, you think about that, what are money flows but the flows of goods, services and people to a higher use? It's always that. And so reading Don's rebuttal, I didn't realize, I had just heard about this, about Oren Cass's report, and I thought, implicit in what he's saying is that people don't matter. That there's a business out there that it's not going to be in better hands if it's moved to a higher use, if an investment banker says, you know what? This piece of the business or this business could be utilized better in another set of hands, and we know throughout history, watching sports teams, we know throughout every walk of life, movies, every industry, that the moving of assets to a

higher use is the source of progress. So for someone as smart as him to-

Bill Walton: [05:09](#)

And he's very smart.

John Tamny: [05:10](#)

Yeah, clearly intelligent to say something about the movement of human and financial and physical capital has been worthless, it's stunning.

Don Boudreaux: [05:20](#)

But this is part of this attitude that has been resurrected in the past few years. This notion that the only really productive activities are manufacturing activities, things where real tangible goods are produced. And Oren Cass has written on this topic, and he has a definite bias toward manufacturing. He thinks that's where value is produced. And I see that attitude behind this entire project of his, it's called coin flip capitalism. That name itself is very indicative of the kind of attitude that they have toward finance.

And of course, manufacturing is valuable. But to have manufacturing, manufacturing plants have to have resources. They have to have financing for their inventories. And people who just look at the manufacturing and say, okay, that's the real production. They don't see all the incredibly complex processes that bring into the manufacturing plant, the resources necessary to make the manufacturing plant operate, and those activities involve finance.

And just because you don't see them, or because you don't understand them does not mean that they don't exist. And he doesn't see in fact that they exist and that they play an incredibly vital role, get rid of those activities and you get rid of manufacturing.

Bill Walton: [06:32](#)

Yeah, and you talk in your piece about just the fact that, well, truck drivers aren't making anything, they're just moving it from A to B, so therefore they don't have value.

Don Boudreaux: [06:41](#)

Yeah, of course, it's crazy.

Bill Walton: [06:43](#)

It is crazy. Well, John, you picked up on a metaphor we've talked about, which is when I was in the merger and acquisition business, you'd be selling a company, and what you were trying to do is take a company that was in hands that maybe has done as much with it as they could, and putting in a stronger hands by our hands, who may have more resources, more talent to take it to the next stage. And there was somebody that wrote

about this, that you quote, "Mergers in market and the market for corporate control," Henry Man?

John Tamny: [07:15](#)

Henry Manny.

Bill Walton: [07:16](#)

Manny?

John Tamny: [07:18](#)

Yeah, it's a very famous article in economics, and he pointed out that corporate managers need incentives and knowledge to allocate resources correctly. Well, one way to give corporate managers incentives is to look at their share prices. If you manage a company poorly, the share price is going to fall. And so as a corporate manager, you don't want the share price to fall because if the share price falls, that means it's more likely that some other investors are going to buy up the firm, put in new management and boot you out.

And so the very process of pricing assets, the very process of having share prices move up and down is a very good disciplining device for corporate managers. And so, that itself is very productive, just the very pricing of assets to keep corporate managers on their toes and keep them innovative is important. That's one of the many important roles that financial markets play.

Bill Walton: [08:11](#)

It brings up the issue about corporations, CEOs, shareholders and Oren's written that accusing libertarian free market advocates, I guess the three of us would be in that category. They believe whatever policies are best for shareholders in the short run are the best policies, and will eventually be good for everyone else also. True, false?

John Tamny: [08:36](#)

Without question, because there are no companies, no jobs, no progress without shareholders. Without savings, you cannot have progress. It's not that people were stupid 600 years ago, but 600 years ago, there was very little savings being directed to new ideas, and so there's very little new knowledge created, and so it's essential.

And so you look throughout history, Jack Welch, I imagine, someone you knew he gets to GE and it's worth \$14 billion, when he retires, it's worth \$440 billion, which shareholder wouldn't dream for that? And you think about the value that you're getting for that. You think about the advances that you're getting.

CEOs are like Michael Jordan. We haven't been taught to think of them that way, but when they can bring that kind of value, the advance they can bring to society more broadly is just stunning.

Bill Walton: [09:29](#) Well, I had that job, but my vertical is not the same as Michael's. Let me just do... a second here. You're watching the Bill Walton Show, and I'm here with John Tamny and Don Boudreaux, and we're talking about shareholder capitalism and why that's the right focus for big companies.

Don Boudreaux: [09:49](#) So I think it's the background to that kind of statement. I agree with everything that John just said, but when I see people like this, I see Oren Cass and other people say that, "Oh, the only thing that libertarians or free market types care about is the performance of the stock market." I think what they're saying is, what they're implying is that all we care about is money. But ultimately all we care about, or ultimately what I care about is how productive is the economy? How successful is the economy? It's supplying real goods and services for ordinary men and women and their families to consume.

The performance of the stock market is a measure of how well the economy performs, that's for certain, but it's not that what we care about is the stock market. We care about the ability of the economy to supply real goods and services to people. And so he's trying to set up, I think he sets up in saying that kind of thing. He sets up this straw man that what we care about, or the numbers that we read in the financial pages of the Wall Street Journal, and we couldn't care less about ordinary people. But people like him, he cares about ordinary people. I think that's a straw man, we all care about ordinary people. And financial markets are one important piece of ensuring that the economy works to satisfy ordinary people, but it's not the only piece.

Bill Walton: [11:10](#) Well, in a way, the equation works if we say, maximize profit, which was the famous saying, I guess, Milton Friedman says, that's all we have to do. Well, let's step back and think about that. How do you do that? Well, you've got customers and you've got products, you've got ways of manufacturing things, and so if you don't have happy customers, you don't have a business. If you don't have products that don't work and are enjoyable and people value, you don't have a business. Your suppliers, well, you've got people selling you things, you got to work well with them. The community you're in, you care a lot about because your corporate reputation matters.

If you're selling a product, you don't want a product that hurts people. So you're taking care of people's health and welfare in that way. So all of a sudden you find yourself instead of serving profit, you're serving everybody else, and you're really getting at all those other stakeholders.

John Tamny:

[12:09](#)

I think back to my mom in the 1970s, talked about an aunt Nan in England. She said, "I hope someday to be able to call her on the phone." Because international call back then was extraordinarily expensive. Michael Milken comes along and funds a company called MCI that was going up against AT&T, and let's keep in mind that AT&T employed one in 500 Americans, it was the one of the largest companies in the world. No investment bank wanted to fund a competitor for it because it provided so much in investment banking fees.

Milken figures out a way to get billions to this microscopic company that transforms communications,, that brings down the price of long distance calling, domestic and global. What investment bankers do, and the reason they're paid so well, as you know, is that they bring capital to businesses that find it enormously difficult to do so on the way to advances that transform living standards. And Cass leaves this coin flip capitalism, what were living standards before Wall Street had another great run in the 80s and 90s and beyond?

Bill Walton:

[13:19](#)

I guess he would accuse us of being market fundamentalists. And as he would say, well, all we care about is the market, and we believe everything good will come from a well ordered market with voluntary exchange and light regulation. What are we missing? And he talks about externalities, a term I don't really understand.

Don Boudreaux:

[13:41](#)

Well, he doesn't understand the term either, by the way, when he uses it. But people, they confuse means and ends. I do love the market. I love the market as an economist, because it does deliver the goods. It doesn't deliver the goods perfectly, but you got to compare it to the alternative. The alternative is to turn over economic decision making to politicians and bureaucrats. What reason do we have to suppose that they will allocate resources better?

It's easy to point to imperfections in the market real or imagined. It is much more difficult to explain exactly how politicians and bureaucrats will improve in that matter. And they never even try to explain it, they just assert that, well, there's this imperfection. The market's not performing like I want it to perform, so I'm going to give the power to these

politicians and bureaucrats, and I just assume that they will do better.

- Bill Walton: [14:31](#) Well, I get a kick out of the coin flip capitalism primer printed out [inaudible 00:14:37] private equity and venture capital, hedge funds. Hedge funds really haven't done all that well in the last 10 years, but I'd argue they're really may be more like coin flip capitalism, but private equity and venture capital have created some amazing companies.
- Don Boudreaux: [14:52](#) Is anyone forced to invest in a hedge fund?
- Bill Walton: [14:56](#) Well, were you overhearing my conversation I'm having with one of my hedge fund managers this afternoon? I'm firing him. That's it, I mean, you can vote with your wire transfer. You can say, look, it's been great, but I'm going to go into something else. That's the thing that's interesting about this. But the sentence... I hope I can find it here was that venture capital, which is a couple trillion dollar industry, which has delivered some good companies. He talks about their returns. And he says, well, venture capital, I paraphrase, has not really done a good job in all ways, and if venture capital choices deliver sub par returns, this contingent outcome whose clauses in fact should invite the intention of policymakers. John.
- John Tamny: [15:50](#) Where do you go with that? Can he be serious? Can we look at the advances that we've just seen in the past five, 10 years? Can we go back to 2010? And I know it's a future subject, but imagine if the political class had shut things down in 2010. Well, no, Uber, no Uber Eats. There was certainly no reasonable way for most people to get groceries via touch of a button in 2010.
- Internet service was incredibly slow back then it was frustrating to do internet at home back then. If you look at the advances hatched by venture capitalist in the last 10 years alone, and let's add most people weren't on Facebook back then, so they could not virtue signal about how all the amazing things they're doing while locked down 10, 20 years ago. The very ways in which Cass projects his viewpoints were not possible back then. So for him to knock venture capital, wow.
- Bill Walton: [16:47](#) Anyway, you're watching the bill Walton show. I'm here with Don Boudreaux and John Tamny, And we're talking about when it comes to allocating economic resources, there hasn't been much proven that's any better than markets and prices, and it's a little bit like Winston Churchill talking about democracy, it's the worst system or until... What was that [crosstalk 00:17:09].

- Don Boudreaux: [17:10](#) It's the worst system except for all the rest.
- Bill Walton: [17:11](#) Except for all the rest. Yeah, I think that's where we find ourselves, not perfect. We could go on at length here, but there's something looming outside here, which is the effect of the COVID-19 pandemic shutdown. Strikes me that we've done some things to protect people from the virus, masks, lockdowns, limited movement, but it hasn't proven more effective than say, Sweden, who hasn't locked anybody down, or at least they've got limited restrictions, and yet the cost of this lockdown are enormous. And the lost jobs lost economic value, but the businesses that have gone under. As an economist, Bastiat writes about the seen and the unseen. We sort of see what the impact of the lockdown is in maybe reducing some cases, but we're not seeing the unseen consequences.
- Don Boudreaux: [18:15](#) I agree, but politicians are never very good about taking economic considerations into account when they make policy. They are especially bad at it now, so people got frantic over COVID-19 deaths, so politicians who don't know much economics or have no good track record of paying close attention to economics, they take the easy way out, they think this most obvious blunt way out, "Okay, let's tell everybody to stay inside." Basically putting us all into house arrest for several months.
- Not realizing that you're shutting down an incredibly complex system and set of processes for producing goods and services. And when those goods and services aren't produced, people don't get the things that they've come to be accustomed to getting, and the standard old ways of dealing with this printing money, sending out checks from the government, none of that means much if nothing's being produced.
- Jeff Bezos would be desperately poor if nothing is produced, doesn't matter how much money he has. And I don't see our political leaders, so-called, taking much account of the effects on the real economy, the devastating effects on the real economy that their shut down in a panic has had, and unfortunately, they won't be blamed for the damage, someone else will be blamed
- John Tamny: [19:41](#) In the 19th century, a broken leg, one in three chances of death. A broken hip, dead. Pneumonia was captain of man's death. Yellow fever was the terror of Western civilization. Tuberculosis was second to pneumonia in terms of deaths. Why don't we talk about those today? Wealth creation, Johns Hopkins donated 7

million to Johns Hopkins in the late 19th century, then John D. Rockefeller donated 430 million just in his lifetime to medical advances. And so suddenly, we were dying of old age. Death of old age was progress. The fact that we're talking about Alzheimer's today is major, major progress. People didn't live long-

Bill Walton: [20:26](#)

Let me repeat the phrase. Death from old age was progress because nobody lived that long?

John Tamny: [20:30](#)

Of course, because remember cancer was number eighth death in 1910, and it was because no one lived long enough even to get cancer. And so what [inaudible 00:20:41] means to say all luxury historical, so is death historical too. And so the response to a health-related virus is to shut down the greatest economy on earth, have we lost our minds?

I don't care if it's 2.2 million projected deaths or 10 million, if it's health related, you keep it open precisely because you will want to come up with the best resources matched with the best people to find ways to fight it. This is stunning. This is so unprecedented, and so anti-health.

Don Boudreaux: [21:16](#)

I agree.

Bill Walton: [21:18](#)

Well, the cost is not just economic. The cost is all the people that are not going to hospitals now to get treated for cancer screenings, or they may have some other issues. The children are not getting other vaccinations. There's a whole healthcare industry that's been shut down. The estimated deaths from those other diseases could be 10 times what the number of deaths are from COVID-19.

Don Boudreaux: [21:45](#)

And talk about the unseen. These are very difficult to measure, very difficult to report, and so they will go unmeasured and go unreported. The COVID-19 deaths will be reported, but these other ill health consequences will remain behind the scenes, no one will report them. I agree with John, I think it's a tragedy. It's a self-inflicted calamity of historical proportions.

Bill Walton: [22:09](#)

Well, as I said at the outset, you've guys have been a hero for years because you think clearly about things economic. The economic illiteracy in this country and the world for that matter, is profound. And having a conversation about trade offs is one we don't seem to be willing to make. As an investor, I think in terms of risk return, you get this good thing and that bad thing,

there's never any pure answer. You've got to trade things off, and we're not making those trade offs.

- Don Boudreaux: [22:39](#) One of my favorite economists Thomas Sowell said that one of the first laws of economics is that reality is not optional, and the first law of politics is to deny the first law of economics. You don't like that conclusion, I'm here to tell you, you don't need it. Because that's how you win elections. Someone promises to basically to perform miracles, and they get votes. And unfortunately, they get not just votes, they get power. And then they use that power, and that power is inevitably used destructively, well, usually.
- Bill Walton: [23:09](#) Yeah, and the blue state governors seem to very much enjoy that power.
- Don Boudreaux: [23:14](#) I actually think there is something to this notion that the lockdown has given a lot of these people a great deal more power than they imagined having, and I think a lot of people like it. We have a long history of people liking power and abusing it, and there's no reason to think that human nature has changed.
- Bill Walton: [23:33](#) John, who's bearing the brunt of the lockdown?
- John Tamny: [23:35](#) Oh, clearly the poor people are bearing the brunt of it. I don't blame the super rich who made it possible for 37% of Americans to work at home, I blame the middle. I think this is the most decadent example in modern or any time American history. People saying, "Oh, let's just shut things down for a few weeks because our jobs aren't a destination, we can continue to write and do... We can get on Zoom." All these creations of the super rich.
- But the people whose jobs are a destination, what's been done to them? They've got nothing. They don't have savings, many of them because people say their work is illegal, aren't even on the books here. And so they were pushed out of a job with nothing to go back to. They had to potentially cross the border into countries where they weren't going to be safe. This is the sickest most anti-poor thing that certainly happened in my lifetime, and nothing else comes close.
- Bill Walton: [24:30](#) That's a final word for this segment. Unfortunately, our time's up and we're going to have to continue the conversation in what we're now calling overtime, and you can find that on our website. Our website, thebillWaltonshow.com is also being relaunched with some interesting features including an

interesting people section where we have a blog page or page for each one of our guests.

And so John Tamny and Don Boudreaux's work and interests and passions will be on the website, and also we'll have a good looking picture of both of you. Also, I welcome your comments about this show, and also other shows you'd like to see, and other guests you'd like to see. So thanks for joining, and talk with you next time.

Speaker 1:

[25:17](#)

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