

Episode 121: A Wide-Ranging Conversation with the Always Interesting Yaron Brook

Speaker 1:

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:

Welcome to The Bill Walton Show, I'm Bill Walton. Capitalism has lifted billions of people out of poverty in the last 250 years, yet it remains vilified, demonized, mistrusted. In particular, the profit motive is generally equated with greed, and therefore evil. So, what should be the purpose of business? Is it profit or something else?

Joining me to talk about this is Yaron Brook, chairman of the Ayn Rand Institute, host of The Yaron Brook Show, editor of *In Pursuit of Wealth: The Moral Case for Finance*, and who I consider generally a great man. A great man of courage and intellect.

Yaron, welcome.

Yaron Brook:

Thank you, it's a pleasure to be here. It's good to see you.

Bill Walton:

It's good to see you again, too. What's it been 15 years, 20 years, since we first met?

Yaron Brook:

Since we first met, probably closer to 20. And haven't seen you probably in eight, nine years, since the financial crisis.

Bill Walton:

Well, I thought you were doing good work then, I think you're doing good work now. We're back at it, in a different mode.

You just recently debated with John Mackey, who's the very, very effective, and I think great CEO of Whole Foods, about whether business should focus on profit. I want to talk about that. But also, I wanted to get clear just how beneficial capitalism as business has been to the world over the last 250 years. You've got some data on that, don't you?

Yaron Brook:

Yeah. It's pretty straightforward. If you go back 250 years, to about the founding of this country, to that period, basically 95% of the entire global population was living on \$2 a day or less. I'm inflation adjusting, so there's no trickery going on here. \$2 a day or less. Anybody in the audience could think about what that means. How would one, today, live on \$2 or less? You couldn't. It's a horrific, horrific life. That's how all of humanity lived.

Since then, we have seen unbelievable progress in terms of wealth, in terms of quality of life, standard of living. 250 years ago, life expectancy, in the most advanced countries in the world, was 39. Most of the world, it was closer to 29. We're talking about we've much more than doubled life expectancy now.

In spite of COVID, in spite of everything we're living through, life is unbelievably good by historical comparison. And, all of that is really a consequence of freedom. It's a consequence of leaving people alone to pursue their own happiness and protect their rights, and that's what capitalism really is. Capitalism is a system where the government leaves you free to pursue your values, free of coercion, and where they protect your rights, primarily property rights in the context of economics, but where they leave you free.

If you think about 95% of humanity living under poverty 250 years ago, in extreme poverty, \$2 a day or less, and then you look at 30 years ago, the number was about 30%, so a huge decline. But then, if you look at today, it's 8%. 8%. 95% to 8%. Now, how did we get to 8%? Not because of foreign aid, not because of global charity, not because people trying to do good, but actually people trying to do good in another way. That is, people starting businesses, hiring people, engaging in commerce and trade. And as Asia's opened up and freed up their economies, and adopted even a little bit of capitalism, they have prospered. So today global poverty is again, by far at the lowest it's ever been in history, all as a consequence of this amazing system of capitalism. Middle classes is massive and global, and increasing.

We're seeing countries in Africa adopt these principles, these principles of capitalism, they are thriving. This has nothing to do with race, ethnic group, geography, anything like that. It has to do with universal principles that lead to human flourishing, and capitalism captures those universal principles.

Bill Walton:

Well, as I thought about our conversation today, I think I've probably got 15 or 20 items we could probably spend five or six hours. We've got roughly 40 minutes, so we might want to get right into the heart of the matter.

Yaron Brook:

Sure.

Bill Walton:

And at the heart of the matter, if you think about business, capitalism, finance, it's the profit motive. Nothing seems to be more demonized than the profit motive. We're looking at somebody like Larry Fink who runs BlackRock, who I think manages \$3 or \$4 trillion, I may be exaggerating, but not much, who's now telling CEOs of public companies that they've got to invest in ESG, which I think means environmental social governance, which is not at the heart of the profit motive. Or, is it?

Now, you and John talked maybe in a different dimension, and I wanted to get into that first. John talks about purpose driven business, and he sets out all these metrics for motivating people in the business and externally, to see the vision for what the business is supposed to be. It's hard to argue with that.

Then, you argue that the business is about shareholder wealth maximization and profit. Now, is there a big difference between those two things?

Yaron Brook:

I think the difference is a difference of focus and a difference of what is primary. Business is a unique institution among all human institutions, and what makes it unique is it is about creating value for profit. Non-profits create value for other things, government creates value, sometimes, it usually destroys value, but when it creates value it creates value in a different mechanism. But, the mechanism by which business creates value and measures value is through the profit motive.

Look, what is profit? Profit is the difference between what it costs me to produce something and what somebody is willing to pay for that thing. That is the value I've added, in a sense, to the world. I've taken a bunch of different elements, put them together, and increased their value. If I hadn't increased their value, nobody would be willing to pay more for them. So profit symbolizes, profit places a monetary value, a dollar amount, on how much value is being created. When a business is extraordinarily profitable, that means it's extraordinary in terms of the amount of value it is creating for other people, because other people are the ones buying the product.

So to me, the focus is on making a profit, that's what you as a CEO do. You're trying to maximize the profit of the business, within the bounds of ethical behavior, and within the bounds of what I think the mission of the business is. But, in order to do that, and in order to motivate your employees, and motivate yourself, there is a certain vision you have for the business. That vision is to be the best company in a particular industry, or to produce X amount of value for your customers. You're oriented towards your customers in your vision, but at the end of the day, your owners or the shareholders, that's whose wealth value you're creating.

Bill Walton:

Well, you think about so-called natural resources. There are really no natural resources, it's what our creativity has brought to bear to make something a resource. The notion that profit and greed are somehow a negative when people go about setting to create value. What I think about business is you take some inputs, and you rearrange them, you get creative, you think about what would be desirable for somebody to buy, pay for. And, if your revenue's bigger than the cost of your inputs, well then you've got a profit. It's nothing very sinister, it's as simple as efficiently allocating your capital, labor and your finance.

Yaron Brook:

Well, and creating real value for people, that's why they're willing to pay for you. Why is somebody willing to pay for you, to pay you something? Why am I willing to pay \$1000 for an iPhone? I'm willing to pay \$1000 for an iPhone not because all the components in the iPhone add up to \$1000. I'm willing to pay \$1000 for the iPhone because it adds more to my life than if I didn't own it. It adds more to my life than the \$1000 my giving up for it. So I'm winning, Apple is winning, it's a win-win transaction. Apple is making a profit, representing how much the iPhone adds to my life above and beyond the cost of all the components that went into that iPhone. Their profit represents the value added to me, the value added to my life, at the minimum.

But beyond that, think about ... You brought up natural resources. People forget this, but oil, that black stuff that comes out of the ground, it used to be that that would lower the value of your property if you found oil on your property because you couldn't grow anything on it, it was really hard to get rid of it, and it was useless. Useless. And then, people innovated, people discovered that this thing had properties, and used science, and used engineering, and used technology to turn this black gunk into the most efficient producer of energy human beings have ever seen. And, our entire world has changed because of cheap energy resulting from that black gunk.

And, what is the profit? The profit is taking that black gunk, turning it into something human beings can use, providing them with the value of that usage. And getting paid for it, making everybody's life better in that way.

Bill Walton:

Why is profit demonized? I've made my way on Wall Street, and run businesses, and obviously I understand that profit is a good thing because it allows you to attract capital that, if you're doing something well, you can build more of it and create even more value for your customers.

Yaron Brook:

Profit is-

Bill Walton:

What's the moral issue we're facing here? Why are businessmen demonized because we seek a profit?

Yaron Brook:

Here, I'm pretty controversial on this point in the sense that I think we're demonized-

Bill Walton:

That's why I wanted to talk with you.

Yaron Brook:

Yeah. Businessmen are demonized because we've demonized self-interest.

Bill Walton:

Yeah.

Yaron Brook:

Businessmen all have self-interest, they're about making money. It's not that you go and make profit so that you can invest it and make more profit. You make a profit because it's great to make a profit. You make a portfolio because you can live a better life off of the benefits of that profit, you can invest that profit and make even more profit. True, but again, it benefits you. Yes, there is a benefit to everybody else, but the ultimate motivation of going to work and producing is the joy we get out of the work we do, and it's the profit we generate from it. It's self-interested.

And yet, we live in a society going back thousands of years, not new, that has demonized self-interest, that has demonized anything associated with self-interest. If you're not sacrificing, if you're not suffering, then you're never going to be a morally virtuous person. All our saints are people who suffer, they're not happy.

Bill Walton:

Marie, my producer, day-to-day producer with the show, asked me before we went on. She said, "Now, are you going to be talking about selfishness or selflessness?" I said, "Well, that's what we're going to be talking about. Is it better to be interested in yourself and your own happiness, or is it better to be interested in somebody else and their happiness?"

Yaron Brook:

Yeah. In my view, the purpose, your moral purpose in life, your moral purpose in life is your own happiness. Now, the way to attain your own happiness, just like the way to attain profit, is not by exploiting people, it's not by treating people badly, it's not by being emotionless, it's not by following your whim. The way to achieve happiness, just like the way to achieve profit, is by treating people with respect, by trading with them, win-win relationships. I like to say that the purpose here is to create as many win-win relationships as you can. And, in terms of pursuing your happiness, by thinking. By using your mind, by being rational, in pursuit of your self-interest.

So not self-interest to Ayn Rand, and to me, and to people who advocate for these ideas, is not about doing whatever you feel like doing, it's not about doing whatever your whim tells you to, it's be calculating, thinking, figuring out what's good for you, and doing that.

Bill Walton:

Well, and you don't believe in a system without guardrails. We believe in property rights, rule of law, fairness and having good courts to protect people against ... Let's face it, not everybody is that great a person, and there are people [crosstalk 00:13:54]-

Yaron Brook:

There are bad people.

Bill Walton:

But, there's such a difference between a company ... Let's take Apple. Is the symbol of capitalism Gordon Gekko, or is it Steve Jobs? I think that 98% of the people that we admire are the capitalists in the mode of Steve Jobs, who creates something that everybody wants, he was in it for a profit.

Yaron Brook:

See, one of the real evils of a movie like Wall Street, and one of the real evils of the general attitude towards finance, is that we take somebody whose clearly a crook, clearly evil, clearly a bad guy, like Gordon Gekko. His speeches, everybody remembers his greed speech, which is actually a very good speech.

Bill Walton:

It was a pretty good speech.

Yaron Brook:

It's a very good speech.

Bill Walton:

On its own that was pretty good, except he was the villain.

Yaron Brook:

He was not serious about it, and Oliver Stone lets us know he's not serious about it by the music he puts on right after the speech, which is Take Me the Moon Let Me Fly Among the Stars by Frank Sinatra, which is clearly an indication that this is just BS, this isn't real. Gordon Gekko's real attitude towards

finance, towards wealth, towards capitalism is later on in the movie, where he tells his protégé, he tells them, "The world, it's a zero-sum game. My gain is somebody else's loss, and I'm going to screw people if I have to in order to get back in." That's just not true.

Bill Walton:

It doesn't work.

Yaron Brook:

That's who he really is, and of course he lands up in jail as a consequence and justifiably so. But, finance is not about that, that's not what finance is. Finance is about win-win, finance is about the rational, longterm allocation of capital to create profit, which is representative of the values that those investments are creating.

So Gordon Gekko, the evil of the movie is that it presents Gordon Gekko as a typical financier, as what you think somebody like Mike Milken was, when we know it's the exact opposite of what a typical financier is, and what a good financier is.

Bill Walton:

Well, yeah. I worked in emerging acquisition business, and I read recently somebody was writing, "Well of course, the whole merger and acquisition business has no economic value, it shouldn't exist." I began thinking but, wait a second. I worked for companies, owners of companies, that had done as much as they could with their business, they wanted to sell it. So what I would do is I'd try to find somebody who could see more of the business than the current owners. I like to think about what I was doing as taking an asset and putting it into stronger hands.

Yaron Brook:

Absolutely.

Bill Walton:

By doing that, you're creating a lot of value because strong ownership, people have great ideas about what to do with an asset is the heart of innovation.

Yaron Brook:

And of course, what you're doing is you're reallocating capital. Sometimes that involves laying people off, sometimes it involves making the business more efficient. Sometimes it involves shutting down a plant. But, what you're doing there is allocating capital to better uses, which creates more jobs, more wealth, raises more people out of poverty than keeping the old industry alive.

People abstract away from this. At some point, we had ... Do you remember the typewriter business? Typewriters? Well, people like you took the value that was in the typewriter businesses, the capital and the labor, and reallocated it to the computer industry. Reallocated those talent, reallocated the capital, so that we could advance, so that we could get better. If we had stuck with typewriters, we wouldn't be doing Zoom right now. If we'd stuck with buggies, we'd have no automobiles today. And, it's financiers who are the ones who reallocate capital to these new ventures, take it from old, dying industries and allocate it to new, thriving businesses.

And net, they're the ones responsible for this increase in wealth that capitalism has produced, because ... [inaudible 00:18:07], the famous economist, called it "creative destruction." Sometimes you

need to shut down certain plants in order to open up other plants. Everybody thinks, "Oh, the Rust Belt was shut down and manufacturing jobs went to China," which is complete nonsense. Manufacturing jobs went to machines, they went to computers and to robots. And, the factories that were shut down, that capital went to Silicon Valley and created many, many more high paying jobs in America than the jobs that were taken away when those Rust Belt industries were shut down.

That's the beauty of capitalism, it's the beauty of financial markets, that they make that possible.

Bill Walton:

Let me ask you the question that the social justice people would make. Well, what about all the people left behind? You've created these new businesses, but what about the people working in the old businesses? What's your answer to that?

Yaron Brook:

Those people live in a richer society, those people live in a free society, and those people, to the extent that they're willing to take responsibility over their own lives, which I think our system doesn't incentivize them to do, but if they were interested in taking responsibility over their own lives, would and could be retrained and produce much more than they used to be able to produce. Robots enhance productivity, they enhance productivity of everybody. And, people are better off for the existence of robots.

Now, we live in a society where we don't encourage people to move, we don't encourage people to retrain, we don't encourage people to take personal responsibility over their own life, and their own happiness, and their own success. I always tell people, instead of presidents now, for 30 years telling steelworkers in the Midwest, "Don't worry, we're bringing their jobs back," instead of saying that to them, imagine a president saying to them, "Get in your cars, and drive to Western Arkansas where there's tons of jobs." Or, "Go to where the jobs are. Stop sitting and waiting for the jobs to come to you."

The American way, the American spirit was always to create your own future, to create your own opportunities, go out there and find them. There are plenty of jobs in America, and have been for decades. This is why we're such a magnet for immigrants, because there are plenty of jobs in this country. Americans need to discover that, and Americans need to take the action in order to go and take advantage of those opportunities that exist.

And of course, as we know, if the government got out of the way more, if we deregulated more, if the government shrunk and stopped spending as much as it did, if it stopped providing negative incentives to businessmen and to workers, then the number of jobs that existed in America is unlimited.

Bill Walton:

Well, I've got a \$5 word I like to use, or term, called voluntary exchange, which is where you get a willing buyer, willing seller, they enter into an agreement, and it's a win-win for everybody. What's been happening is we've got government inserting itself between a willing buyer and a willing seller, and imposing certain outcomes. And, that by definition destroys a whole lot of economic value. It destroys freedom, but it also just makes the economy more, and more, and more sluggish.

What are we now? Because of this regulatory overhang, according to Heritage, wasn't the United States one or two in the Freedom Index, and now we're 22 in the most recent ranking?

Yaron Brook:

I think in 1980 ... I think in 2000, we were number three in the world.

Bill Walton:

Yeah.

Yaron Brook:

When George Bush became President, we were number three, today we're number 20. The decline is a consequence of, in spite of the mythology, Bush was a big spender and a big regulator. Of course, we know Obama was a big spender and a big regulator. Trump was a big spender and didn't reduce regulation through legislation and, of course, raised tariffs. And now, we've got a Biden Administration. And, through those presidencies, we've gone from number three to number 20, which is a massive decline of economic freedom in the United States and truly tragic.

I would argue that even that number three in 2000, the two of us would say, "That wasn't that good."

Bill Walton:

No, it was not that great.

Yaron Brook:

We could have been a lot freer in 2000. From an economic perspective, freedom in the United States has declined steadily, I would argue probably since 1913, '14, and certainly since The New Deal under FDR.

Bill Walton:

What's your take on what Larry Fink is doing with BlackRock, and imposing ECG requirements on corporations?

Yaron Brook:

I think it's terrible. I actually would love to have people who invest with BlackRock sue him for violation of his fiduciary duty. His fiduciary duty is to manage that money to maximize the wealth of pension plans of investors in BlackRock funds, not to use his philosophy of social justice, or social whatever, to dictate investments. I wish people would leave ... The problem in America today is that so much of the money in our markets is managed by pension plans, many of those pension plans are politicized. Governors often sit on state pension plans, teacher unions pension plans, [inaudible 00:23:45] in California, are two of the largest institutional investors. They, then, are investors in BlackRock. BlackRock, therefore, caters to the politicized pension plan industries, the institutional investors in this world, rather than to the individuals who own those pensions, or to the individuals who invest directly in BlackRock.

Bill Walton:

Would you think there's going to be a trade off between returns for companies that invest in these other social goods, like environment, social, and governance? Or, do you think that the companies that are going to be focused on shareholder wealth maximization are going to end up doing better in the long run?

Yaron Brook:

I think that the companies involved in maximizing shareholder wealth are going to do better in the long run. The problem is this, the problem is that those companies are getting penalized by regulators, by investors, and therefore the number of those company are shrinking.

What you find when you actually go into these ESG portfolios is you see that they pretty much invest in everything, they're just diversified portfolios of everything. That's because they have twisted the arms of CEOs to, at the very least, pretend to be ESG. The real damage in my view is we've turned the entire US market, and almost all CEOs in America, into people who, at the very least, give lip service to ESG, and at the very worst actually do it, and therefore reduce productivity, reduce profitability, reduce wealth creation, and I think ultimately reduce GDP growth or growth in the economy overall.

I think that one of the reasons we've got our economy has not really grown much is we've barely seen an increase in quality and standard of living over the last 10 years or so, 12 years, is because of some of these policies that some of these companies are doing, not because they necessarily want to, but because they think their investors want it, or the government want it, or somebody else is forcing them.

Bill Walton:

Well, most CEOs of these big companies are really more corporate politicians, in a way. They're a long way away from the marketplace and creating [crosstalk 00:25:59]-

Yaron Brook:

One of the things that [inaudible 00:26:00] does is it discourages businessmen from becoming CEOs, and it encourages schmoozers and politicians to become CEOs. Because, what is your job as a CEO? It becomes to finagle the regulations more than anything else, to deal with regulators, not to make money.

Bill Walton:

Yeah. I saw that, as a member of the Financial Services Roundtable, most of the CEOs of the big financial institutions were gaming the system that way. That's the reason I became to admire John Allison so much, who I know has been involved with Ayn Rand. He was a real entrepreneur and had a principle based way to run his business that had nothing to do with gaming regulation. And, for that he just stands out, in my mind, as an American hero. Well, not just an American hero, a worldwide hero.

Yaron Brook:

Absolutely. John is fantastic both as a CEO, and he also has this intellectual side, he gives a great speech. He's a businessmen philosopher, which is pretty rare and a really unique individual. Yeah, the world would be a much better place if we had many more businessmen who emulated John Allison.

Bill Walton:

Well, let's circle the John Mackey debate. I think in many ways, you two were talking about the same thing but using different words. We've got this notion there's the shareholders, but then there are also the customers, the suppliers, employees, and the community. You've also got the investors, obviously. Somehow, you're supposed to maximize, or optimize value for all those stakeholders, which are the nearly held one.

But, as I think about it as a practical matter, if you want to run a business for a profit, you've got to have happy customers. Your supplier relationships have got to be good, your employees have got to be felt they're being well taken care of, well treated, respected. And, you have to have a good brand in the community, otherwise people are not going to buy your product or service. So I don't see the ...

Yaron Brook:

Here's the difference.

Bill Walton:

I don't see the conflict, except in words, because you can't run a business with a win-lose attitude towards any of those stakeholders.

Yaron Brook:

Absolutely. First, to some extent John presents this as a marketing issue. So he thinks that this is softer, to say we're truly trying to maximize the benefits to everybody and not just one group. I get why he's doing that, he's trying to avoid the self-interest, which is so tainted in our culture.

You've been a CEO. Yes, you have to be good to your customers, you have to be good to all these groups. But, you still need a way to make decisions. I used to run this exercise with my students. I said, "Okay, lets assume that you have an opportunity to close a plant in Illinois and open it up in Florida. It turns out that, if you do that, shareholders are significantly better off. It's a profit making idea. You'll still make money in Illinois, but if you move the plant to Florida, you're going to make more money. How do you make that decision?"

According to John's methodology, you make a list of all your stakeholders and you somehow try to maximize everybody's wellbeing. But the fact is, you're going to be laying off people in Illinois. So some employees in the short run are going to lose, just reality, they're going to be laid off. But, some employees in Florida are going to gain, they're going to be winners. How do you balance that?

My point is, the only way to actually make decisions is to have a decision matrix, I'm going to maximize shareholder wealth. Sometimes, that's going to mean customers are going to be unhappy. When the iPhone went, do you remember, from the regular USB to the special wire, or took out the headphone jack on the iPhone, some customers were upset. But you know what? It made sense longterm.

Bill Walton:

I was one of them, I liked my phone jack.

Yaron Brook:

Sometimes, you're going to make customers a little unhappy, but it makes sense for the company longterm to do it. If they took into account everything they did, all these different stakeholders, you'd never make a decision, you'd be stymied. I believe that John, because he's such a good CEO, I think that John, in the end, works to maximize shareholder wealth, while, as you said-

Bill Walton:

You use the word marketing, I might use the word motivation because, as a CEO, what you discover is that in this culture, most people are not going to get turned on when you have them come into the office for a company meeting and say, "Our job here is to maximize profit."

Yaron Brook:

Yeah.

Bill Walton:

It just doesn't resonate.

Yaron Brook:

Yeah.

Bill Walton:

So what you say instead is, "Our job is to create the best customer experience on the planet, our job is to create the most wholesome food, distribution." That's Whole Foods, I think. I can't remember what Amazon's was, but it was a similar high purpose. That tends to get people more fired up, day-to-day.

Now, what you back into very quickly though is that Tom Sole, who's the great economist said, "Economics is about trade offs, and business is about trade offs." There's never anything that's a 99-one decision, it's always a 55-45 decision.

That's why, when I listened to you two I thought you're just using ...

Yaron Brook:

But, the one thing you don't trade off, if you've got a decision, the longterm will maximize shareholder wealth, you don't trade that away, you maximize longterm shareholder wealth. That's your job, that's why you're there. That's why shareholders employee you, that's what you're there for.

Now, sometimes that'll mean laying some people off. Sometimes that'll mean changing suppliers. What about a time where you discover a better supplier?

Bill Walton:

What about the issue of, and we're facing it with China ... I was a very, very strong free trader, I believed we ought to do as much business with China. I also, 15, 20 years ago, thought outsourcing to the lowest cost place would be a good idea. But, in China in particular, we're paying a price because we've been doing business with a country that is, in effect, totally controlled by the Chinese Communist Party, and they're not really interested in liberal democracy, or being invited into the world liberal community. They've got something very different in mind.

So now, we find ourselves with we made economic decisions to put a factory in China, or in Merck's case, they took \$1 billion and put an R&D center, just near Beijing. I call myself a recovering libertarian for that reason, because I think there are other considerations that we need to take into account. I'll further this and make it even more complicated, where there are people say that CEOs whose companies are domiciled in the United States should think first of the United States, and only thereafter their company. I think I've thrown you a five-part question there, but you can react any way you want.

Yaron Brook:

Well, my view is the government has not business in this question. It could be that Merck decides that it was a strategic mistake to open up a plant in Beijing, because of supply chain limitation and so on, but the government has no business. The best the government can do, and the only thing in my view the

government should do, is create an environment in which these companies feel better about producing in the United States, and that's by lowering regulation, lowering taxes, and so on. But, not by penalizing them, not by increasing intervention.

Governments don't trade, the United States with China, China doesn't trade with the United States. I trade with Merck, who happens to produce maybe something in China, and they trade with some Chinese people, and individuals are the ones who trade. Government has no business getting in the middle, as you said, between voluntary transactions. Now, I might decide that I think China's an abhorrent regime, and I as an individual do not want that regime to benefit from my trade, and therefore I will not trade with China, as I think is appropriate, could be appropriate today to do.

I don't think it's the role of government to tell me who to trade with. Unless, and let me put in the unless, unless the United States government declares that China is an enemy of the United States, a true enemy. In that case, we should have an embassy there, and in that case, we should treat it as an enemy state, just like we do Iran, and just like we do North Korea, and they're out. But, as long as, from a foreign policy perspective, the government of the United States has not declared China as an enemy, and we go over there and they come over here as diplomats and pretend that we're all cozy, then the US government has no business in raising tariffs, or putting trade restrictions.

Bill Walton:

I may differ with you on that, because I think that we've got a much more nuanced problem with China, and you don't want to declare war on China for a billion reasons. But, there are also some self-protective reasons you don't want to do that. Most of our major pharmaceuticals are manufactured in China and India, or manufactured in India and sub-contracted, and then branded through China. You can't find an Aspirin manufacturer in the United States. We've let the free trade system evolve to this point where we've got these interdependencies. I don't know how you manage your way through that.

Yaron Brook:

Interdependency is wonderful, it's the whole point of division of labor is to create interdependencies. It's an amazing thing. The thing is, I think businesses are learning that they don't want to rely on one supplier. I think a lot of business is moving to Vietnam, to India, ultimately maybe to South America and to Africa. It's not coming back to the United States, that's a mythology. But, it is going to be diversified across the world because nobody wants to be dependent on one entity. And they shouldn't, from a purely business perspective, from a shareholder wealth maximization perspective.

I think one of the things businesses are learning, Apple for example, is building a lot of facilities in India right now, because they don't want to be overly dependent on China. So business is learning, as we know markets adapt. We get new information, and you learn.

But, I also think that China, we are helping create, turn China into a monster. I think the United States is much at fault, in what is going on in the world right now, and the turn away from capitalism, and turn away from freedom.

Bill Walton:

Amplify that, amplify that. What do you mean? Why are we much at fault?

Yaron Brook:

We used to be, as Ronald Reagan used to call us, "a shiny city on a hill."

Bill Walton:

Yeah.

Yaron Brook:

We used to be a symbol of freedom and capitalism, and free trade, and the best that capitalism had to offer. And we have, for decades, been moving away from that. I think the real turning point was 2008. I think when George Bush said we have to bailout everybody in order to save capitalism from itself, or some ridiculous language like that, we basically sent a message to the world, a signal to the world, that we were a failure. That our system, capitalism, did not work. We blamed capitalism for the financial crisis, which I think the two of us know is complete nonsense.

Bill Walton:

I have a couple of guys named Mr. Dodd and Mr. Frank, who I would ...

Yaron Brook:

Anybody should have gone to jail for the financial crisis, it's not bankers, it's Dodd and Frank.

Bill Walton:

Right.

Yaron Brook:

We increased regulations, we increased state involvement in our economy as a consequence. And we basically told the world, in big letters, capitalism has failed. It was the headline in our newspapers, and it was the message by electing Obama and by nominating McCain, we basically told the world capitalism is useless. And then, that's continued. Obama, Trump, Biden, all anti-capitalists presidents who've projected an anti-capitalist mentality, and told the world capitalism is a failure.

I think the Chinese looked at that and they said, "Okay. Well, if that's the failure, then where do we go from here?" And, what they went is they basically went inwards in a sense of, "We need more control, we need to do what America in spades." I mean, we did the same thing with COVID, by the way. It's funny.

The last thing in the world an American would expect is when a pandemic hits, we have lockdowns. Who did we learn lockdowns from? No CDC document, ever, that has been writing in the past in terms of planning for a pandemic had lockdowns as the solution. We learned it from China. We are becoming like China, instead of China becoming like us. We, instead of fighting China on the basis of the way to liberalize your economy is to mimic us, we started doing what China does. That is telling companies how to run their business, where they can produce, increasing tariffs, increasing controls, increasing regulation. Instead of modeling what capitalism looks like, we are modeling for China what ... We have now Nationalist conservatives, who want industrial policy in the United States. It's scary.

Bill Walton:

Who is the we, though, when we talk about it? I can't think of any of our political leaders, particularly, that have ever made this case.

Yaron Brook:

All of our political leaders. I can't think of a political leader who hasn't. Again, all of them have talked about embracing this model of constraining, or having the government involved directly in individual's decisions, or placing themselves between traders, between voluntary exchange. All of our political leaders have embraced models where we try to benefit the steel industry at the expense of that industry, and preferring this one.

Bill Walton:

That's what I meant, though. Nobody's making the free market case, the pure free market case.

Yaron Brook:

Oh, there's nobody making free market case, really, from the bully pulpit since Ronald Reagan. Ronald Reagan was the last president who, from the bully pulpit, actually made the argument for capitalism, for freedom.

Bill Walton:

What did you think of Trump?

Yaron Brook:

I'm very opposed to Trump. I think he was very, very bad for America.

Bill Walton:

Why?

Yaron Brook:

For multiple reasons. One, because many people think he represents capitalism and he doesn't, he represents the opposite. He's a central planner at heart, and acted as one. And, you could see that. People talk about China with regard to Trump, and he failed with China in big ways. China became much worse under Trump, then it was before Trump, and I think partially because of him. But, think about steel tariffs in Canada and Brazil, and other countries. It wasn't about China, it was about his protectionism. He was a protectionist from day one.

But more than that, he turned the presidency into a vulgar ... He vulgarized the presidency. He turned the Republicans into a political party that stood not for anything positive, but for just being anti-left. I understand being anti-left, as you know. I'm very anti-left.

Bill Walton:

Yeah.

Yaron Brook:

But, that became the whole agenda, is anti-left. The way he demonized the press, as much as I hate leftist media. The way he did it, I think put down the First Amendment. I think now you're seeing a lot more of this anti free speech that's going to come from both left and right. I think we're in for ... I think at the end, he split and destroyed the Republican Party. I think today, there's basically no opposition to the agenda of the Democrats. There's nobody in opposition.

We've got Josh Hawley, who based on economics, agrees with the Democrats. And then, we've got Republicans who are just too cowardly to say anything. We've turned the Republican Party in a populist party in economics, there's no even semblance of pro freedom of capitalism anymore.

Bill Walton:

Well, that didn't cheer me up. You're not here to cheer me up, though.

Yaron Brook:

I'm not in a cheery mood.

Bill Walton:

You're not in a cheery mood, neither am I particularly. I look at what's going on now, with this HR1 and federalizing our national elections, and the Equity Act, and what's happening in culture. Yaron, our ideas need to prevail, and I'm not giving us high marks in getting our word out.

Yaron Brook:

No, we're not. It's very frustrating. I think part of it, I do blame Trump for, because I think a lot of people who should have been advocates for capitalism got on the bandwagon, and got diverted away from the true free market message. And look, people have to evaluate Trump based on the fact that, under his Administration, Republicans lost the House, the Senate, and the Presidency. Whatever it was, it was a losing strategy. The Republicans need to do real soul searching, and I'm afraid they're not doing it. Somebody needs to resurrect, whether it's the Republican Party or another party, an actual American free market political party. Maybe we need a third party, maybe we need a new party, I don't know.

But, the Democrats and Republicans are so corrupt today, are so heading in the wrong direction today, that I really do fear for this country. We need somebody who has just a little respect for the founding fathers and the founding principles of this country.

Bill Walton:

We're out of time.

Yaron Brook:

It always happens to me.

Bill Walton:

Well, it always happens. We're just getting started.

Yaron Brook:

I know.

Bill Walton:

I've got a Joe Rogan slot, I need three hours. Because what I'd like to do, at some point I'd like to get you back, maybe with John Allison or somebody like that, to talk about what should we be doing. What's the vision that we can paint for people? We know what's broken, and we know Trump's failings. I'm not as

tough on him as you are. My biggest beef with him is he failed to build out anything bigger than himself. And, that we know doesn't last, and it didn't last.

Yaron Brook:

I actually think we could learn a lot, and I know it's not popular in the Republican Party these days, we can learn a lot from Reagan. We can learn from his optimism and positivism, verbally. Now, he didn't do as much as he spoke, I think he was a better speaker than a doer in terms of if you actually look at the bills passed and so on. But, I think we need to start by speaking that language. We need to be optimistic, positive, strong, and we need to embrace this country. And not this country as just the geography, but this country as a set of ideas that were laid down by the founders. We need to take, head on, this nonsense of the left, the 1619 Project, and the cancel culture and all that, and embrace the greatness of this country and what this country really represents. But not in vulgar terms, but in terms of hope, and in terms of optimism, and in terms of greatness. This country is the [crosstalk 00:46:05] of humanity.

Bill Walton:

Yeah. I'm so with you on that. Now, we've got the spine of our next conversation. Because we started out talking about wanting to get together to talk about all the great things that are happening and can happen, and I think we'll circle back to that next time.

Yaron, thank you. It was great to see you again, and talk after all these years. Yaron Brook, chairman, and I think mostly founder of the Ayn Rand Institute.

Yaron Brook:

I wasn't a founder, I wasn't a founder.

Bill Walton:

He didn't found it, but you-

Yaron Brook:

The CEO for a long time.

Bill Walton:

You put it into stronger hands, using my term. You were definitely strong hands there.

Anyway, thanks for watching, thanks for listening, and we'll be talking soon. Thanks.

Yaron Brook:

Absolutely.

Bill Walton:

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