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Economic Fallacies -- Interview with Thomas Sowell

By **Bill Steigerwald**

Friday, February 1, 2008

Economist and syndicated columnist Thomas Sowell says he has lost track of how many books he's written on economics, history, social policy, ethnicity and the history of ideas. His latest, "Economic Facts and Fallacies," adds to his admirable record of using plain language to pass along some of the dismal science's often ignored, often twisted truths and basic principles to everyday readers.

Professor Sowell, 77, is the Rose and Milton Friedman Senior Fellow on Public Policy at the Hoover Institution on the campus of Stanford University in Palo Alto, Calif. I talked to him by telephone on Thursday:



Q: Do you have any wisdom to share with us about what the politicians should or shouldn't be doing about our current economic troubles?

A: Well, they're two fundamentally different questions. The first is, "Is there something that the government could do that might make things better?" The second is, "Is there anything the government is likely to do that will make things better?" The second question is much easier to answer: The answer is "No."

Q: From what they've done so far, are you encouraged or frightened?

A: I think I'm stoically braced for whatever disaster they create.

Q: Are the subprime credit crisis and the stock market's swoon and the dollar's drop in value symptoms of a deeper, larger, broader problem?

A: Well, no, they are simply the problems that they are. The government has brought on the housing problem, partly by these very low interest rates, which encouraged many people to go way out on a limb. They've brought it on by highly restrictive building policies, which have caused housing prices to skyrocket artificially. And they've brought it on by the Community Reinvestment Act, which presumes that politicians are better able to tell investors where to put their money than the investors themselves are. When you put all that together, you get something like what you have.

Q: Why did you write this latest book and who is it written for?

A: It's written, first of all, for the general public. It's not written specifically for economists. Most economists know most of these things -- well, they know most of the principles; they don't know most of the facts. It's not meant to be a breakthrough on the frontiers of analytical knowledge. But it is meant to show how so many things that look one way are in fact diametrically the opposite when you take a closer look at them -- and especially if you look at them systematically instead of just in terms of what rhetoric sets off your emotions, which is what seems to be going on in both parties these days.

Q: What's an example of a fallacy from your book?

A: One is the income gap between rich and poor. It's maddening to me to keep hearing how the rich are getting richer and the poor are getting poorer, and so on. The fundamental difference is the difference between talking about abstract statistical categories and talking about flesh-and-blood human beings. Since the book came out, for example, there's been a study released by the Treasury Department based on income tax returns. There, they are talking about following the same human beings over a span of years, which is wholly different from following income brackets over a span of years, because in all the brackets more than half the people change in the course of a decade. So what

happens to a bracket is an abstract question; what happens to the flesh-and-blood human beings is different.

For example, for the flesh-and-blood people who were in the bottom 20 percent of taxpayers in income in 1996, their average increase of income over the next decade was 91 percent -- so they almost doubled their incomes. Meanwhile, for the people in the top 1 percent -- presumably the rich who are getting richer -- their average income declined 26 percent. That's diametrically the opposite from what we're hearing from nearly every newspaper and practically every political platform.

But of course it's also true that if you look at the income tax brackets, the distance of the top bracket from the lowest bracket has increased. One reason is that the very lowest bracket is zero, so it can't go any lower. So as you pay people more and more money and as the economy grows and skills become more sophisticated, obviously the ratio from the top and the bottom is going to increase.

Q: Where do these fallacies come from?

A: Oh, God, there are so many of them. As I say in the first chapter of the book, I can only give a sample of the fallacies. What I try to do is show how utterly plausible some of these things sound the first time you hear them, and it's only when you look just a little bit below the surface that the whole thing collapses like a house of cards. For instance, I list several beliefs -- "except for the rich, the incomes of Americans have stagnated;" "the middle class is growing smaller;" "over the years, the poor have been getting poorer;" "corporate executives are overpaid at the expense of stockholders and consumers;" and so on.

I point out that you can find statistics that seem to support every one of those propositions, but you can also find other statistics -- and sometimes the same statistics looked at differently -- which cause the whole argument to collapse like a house of cards.

Q: Is it the politicians who are pushing these fallacies as a way to gain votes? If there weren't those politicians, would these fallacies disappear?

A: No, because you have ideologues and they create essentially the atmosphere in which the politicians operate. And given the atmosphere, the politicians will seize upon whatever will get them votes at the time. But they don't create the atmosphere.

Q: Is there a fallacy bouncing around in the presidential races that has caught your eye? On immigration, for instance?

A: There's no chapter on that in the book. But I think there's the notion that you can talk about immigrants in the abstract, when in fact there is no such thing as an immigrant in the abstract. Immigrants from some countries have 10 times as high a proportion of their people be college educated as immigrants from other countries. There are immigrants from some countries that have made enormous contributions to the United States, not the least of which were the majority of leading atomic scientists who created the atomic bomb and brought World War II to an end. They were imports, as it were.

But there are other people who are brought in who have brought in diseases which never were known before. They brought in attitudes which were not the attitudes of citizens. In fact, they were the attitudes of people who were hostile. I'm amazed when they talk about the guest-worker program in Europe. No one even asks, "What has happened with guest-worker programs in Europe?" What has happened is that they've brought in people who hate their guts. This is why you have terrorism in London and Madrid and riots in Paris and other French cities by people who have absolutely no desire to assimilate and who in fact hate the very ideas of the country in which they live.

This is not in this book, but it will be in the next edition of "Applied Economics": There is the second-generation phenomenon. You have people who move in from some poor country -- the Middle East, Mexico, whatever. Those people may be very glad to be in the United States or Britain or wherever they may be. But then they have children. And their children have never seen those other places; they've never lived that poorer life. All they know is that the population around them is a hell of a lot more prosperous than they are. And there are all sorts of ideologues and hustlers ready to tell them that it's society's fault that they don't have what other people have. This then gives you the people who hate the country in which they live.

Q: Have your ideas about immigration changed in any way? It seemed to me that 25 years ago you liked immigration and immigrants and you saw the whole process as benefiting the host countries and everyone who arrived.

A: I do think the immigrants I wrote about were a positive influence on the countries to which they moved. But again, the problem is you can't talk about immigrants in general. They love to say things like, "They thought the Irish and the Jews were unassimilable but look at them now, etc." Well, the circumstances of the Irish and the Jews were radically different from the circumstances of the people who are coming here from Central America.

First of all, the times were different. First of all, the Irish, the Jews and blacks as well, who were moving out of the South, had leaders and organizations that were doing their damndest to get them assimilated to the norms and the society to which they were moving. Today, you have just the direct opposite. You not only have groups within in these societies that are trying to keep them unassimilable and full of resentment.

But you also have people from outside the group, including politicians but also ideologues and intellectuals, who say one culture is as good as another and why should we expect them to assimilate to our culture. Well, that's wonderful. You should try to go to China and live without speaking Chinese.

Q: What fallacy does the most damage to our whole society or economy?

A: I guess the single fallacy from which so many other fallacies derive is what I call in this book "the zero-sum fallacy" -- that is, the idea that what one person gains, someone else loses.... A classic example is rent control. When you put in rent control, the tenants gain in the short run; the landlords lose in the short run; the builders lose in the short run. But of course the builders lose the least, because the same material and skills that are used in building apartment buildings are used in building office buildings and warehouses and all kinds of other structures; they lose very little. But when the supply of housing dries up, then the tenants are really in a bad way. So places that have rent control almost invariably have housing shortages.

I start off in the first chapter, in fact, by quoting some lady who was in Egypt back in the 1960s when they put in rent control. She said people stopped investing in apartment buildings. Huge shortages in rentals and apartments forced many Egyptians to work in horrible conditions, with several families sharing one small apartment. So they really pay the price much more so than the landlords or the builders

Q: I didn't think Egypt has rent control problems like New York City.

A: Saigon -- Ho Chi Minh City -- Hanoi. A leader in Vietnam said, "Americans couldn't destroy Hanoi by bombing but we've destroyed it with rent control. The zero-sum fallacy is the biggest in its scope. At Stanford, for example, they've issued an order that the professors at the medical school are no longer allowed to accept any kind of gifts from pharmaceutical companies, including the free samples of medicines they give out, which doctors pass along to their patients.

Well, this assumes that if it helps the pharmaceutical company, it helps them at the expense of the patient. It never occurs to them that there wouldn't be any transaction between the pharmaceutical companies and the patients unless both of them gained something from it. In my case, I happened to have a medication given to me as a free sample by a doctor -- thank God, not at Stanford -- which has really made my whole life livable. These people pay no price for being wrong -- that's the problem with third-party decision making. It can be as wrong as two left feet and it costs them nothing.

Q: How does a basic knowledge of economics help someone see through these fallacies?

A: That really is what they would have to read the book to find out. The point is, you can demonstrate time and time again that the things that sound plausible just on the surface -- if you do give them just a little bit of systematic thought -- can suddenly change. One of the chapters is on male-female economic differences. I must say, when I was doing the research on this I was shocked to discover that there is a very significant income difference between young male doctors and young female doctors. I forget what the number is, but it's not 1 or 2 percent. It was only when I dug into it that I discovered that young male doctors worked 500 hours a year more than young female doctors. Well, you know, if you work 500 hours more a year, you'd expect to get paid more!

Q: Is there any rule of thumb people could use to determine if they were being confronted with a fallacy?

A: Are you telling me that I should tell people they don't really need to buy my book? (laughs) ... There are only eight chapters in my book. But after you've been through them you'll be able to derive certain principles which you will suddenly realize apply to all kinds of other things that are not discussed in the book.

There are three questions that I think would destroy the left if people could ask them: "What are the facts?"

"What are the consequences of what you are going to do?"

And "What is the trade-off?"

People talk as if you can just save the people whose homes are at risk, and that's it. Well, if that was the case, why not save them? But at what price? We could ratify the Kyoto Treaty, but the question is "At what price and what benefits would there be to offset that price?"

That's the question that the politicians and the ideologues don't want to ask. They don't want to compare. They don't want to weigh one thing against the other.

Bill Steigerwald, born and raised in Pittsburgh, is a former L.A. Times copy editor and free-lancer who also worked as a docudrama researcher for CBS-TV in Hollywood before becoming an associate editor and columnist for the Pittsburgh Tribune-Review.

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