Make Me Smart November 3, 2021 transcript

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Molly Wood: Hello, everyone. I'm Molly Wood. I know, it's a big sigh day. Welcome back to Make Me Smart, where we make today make sense. Thank you for joining us. I appreciate that we've gone back to the declarative instead of the we try.

Kai Ryssdal: That's right. That's right. That's right. I'm Kai Rysddal, it is what do you want to know Wednesday, time to answer the questions that you send us. Details on how to do that, by the way, come on later in the pod, just to refresh your memories or give you the first time glimpse, you know, if you're not used to it.

Molly Wood: Yeah, exactly. We're gonna dive right in with a voicemail, our favorite kind, and it is a question about the price at the pump.

Adrienne: Hi, Molly and Kai. This is Adrienne in Santa Cruz, California. I was just pumping gas and the fellow next to me asked me what I thought about the gas prices. And I told him that I was discouraged because they just keep going up and up. And he decided to share his unsolicited political thoughts with me that we could thank Biden for the gas prices. And I really wish I had an educated answer in response to this person. But I just don't. I wondered if you could make me smart about gas prices in America right now. Thanks so much for everything you guys have taught me. Love your show.

Molly Wood: I think it must be the worst job in the world to be the president. Like you're like, 10 months into the job. Everyone's like, no, that's Biden. Oh, it's raining today. Yeah, no, that's him. Thanks, Obama.

Kai Ryssdal: Because here's the truth, right. Presidents have so little control over what actually happens day in and day out in the economy. Right? Big picture. Yes, sure. They can set broad policy goals. But stuff like oh, by the way, gas prices, zero control, zip, zero, although you will surely be hearing it in the run up to the 2022 and 2024 elections. It is, it is straight up supply and demand. Right. We are driving more now than we did in the pandemic and supply has not increased and in point of fact, supply is going up less than OPEC had promised it would. OPEC, of course, controlling something like a bazillion percent of the world's reserves. That's not true, like 90% of the world's reserves and 50% of the supply of petroleum. I mean, it's just it, OPEC is a cartel for a reason. Right. So they've got oil. Yeah. Yeah. Yeah. You know, so the idea that any politician, President United States, or the president of the local school board, has control over gas prices is, is not grounded in reality. Okay. Are gas prices high? Yes. Yes, they're very high. I paid five bucks a gallon. I can't imagine what they're in a place like Santa Cruz. I paid five bucks

a gallon the other day. But, but of all the things you can blame on Joe Biden, which are, you know, not a small amount at this point because he's been in office for 10 months, gas price isn't one of them. Full stop.

Molly Wood: No, it would actually be slightly more within the realm of accuracy to blame Putin. Or maybe MBS, you know, like, if you just, you want me to just boil this down to a snappy comeback? Exactly. The next time you're at the gas tank and the guys like I believe Biden for this, you should be like, actually blame Putin. Am I right? And then leave because you don't need to have that talk. Life's too short.

Kai Ryssdal: Totally. 100%. 100% All right. Next question is after last week's deep dive on the carbon tax. Here you go.

Chris: Hi, this is Chris calling from Maplewood, Missouri, also known as the Florence of the City of St. Louis inner ring suburbs. In the episode about the carbon tax, Molly made a statement about how different things would be if people only knew the real cost of chicken versus what they pay for it at the market. So my question is, what is that difference? And who does pay for it? Thanks for making me smart.

Molly Wood: I love Chris calling from the Chamber of Commerce in Maplewood, Missouri. Everybody, you gotta sell your towns harder, like sell your town harder. So I love this question, because in a weird way it actually ties back to gas prices, which we just said are high, but frankly, should be way higher because you are actually in no way paying the true, true cost of gas, if you think of it as fossil fuel that is subsidized by all of us in a million ways. And so the genesis of this question, of course, is our conversation about the carbon tax, the idea of putting a value, and you can measure this and some sometimes very accurately, sometimes with, you know, some guesstimates, on how much carbon it took to produce something and then adding that on to the final price tag. And then taxing either, you know, producers or consumers that would all sort of end up in the same place. But an MIT analysis shows that if you have a $50 per ton carbon tax, and then you increase that by 5% a year, that would lead to a 63% reduction in total US greenhouse gas emissions by 2050. And since we want a 50% reduction, even ideally by 2030, like that would definitely help. If you missed our episode on the case for a carbon tax, go back and listen to it. To this question of how much does a package of chicken really cost and who pays it? Well, the fun part is that you pay it in the end anyway. So one of the things that is unknown about or that is sort of, you know, that people are less aware of when it comes to fossil fuel extraction is that there's huge, huge subsidies that go into that, whether it is the free water that, you know, oil companies can use, or coal rigs can use to process this stuff when it comes out of the ground, whether it is some kind of government subsidy or tax break, because there may be on one side of energy or the other. So there are a million ways in which actually your taxes helped to subsidize the package of chicken. And then, of course, there's the question of anyone who suffers, you know, effects of extreme weather related to the climate crisis, future generations, and the communities who are being most impacted by pollution and fossil fuel extraction, because it's just often in places, you know, that don't have a lot of money or are

communities of color. So the cost is spread out. But don't think you're not paying for the, you're paying for the whole chicken.

Kai Ryssdal: Yeah, the phrase economists like to use for that is externalities, right? It's, it's the thing that's imposed on others by the actual production or sale or manufacture of said product. And it's, it happens in everything. And there's a lot of attention now on carbon. And it's, it's, it's a good thing, frankly, that that's happening.

Molly Wood: It is. I mean, if gas costs what gas should cost, you guys would all go electric, you know. Also, I'm just fascinated by the price of the like, of all of the things that you pay for in the course of a year, the difference in gas prices is, it's like a Starbucks situation. And it's the thing that people are the most sensitive to. I just find that fascinating.

Kai Ryssdal: Because we see it in, we see it and foot high numbers every time we drive down the street, right? You don't see the price of a bag of rice at the store. Right. But, and you know, so consumers are rightly obsessed with it. I totally get it. I totally get it.

Molly Wood: Are they rightly obsessed with it when they could have like, more fuel efficient cars and the things that, I mean, they're spending, they're literally spending more on who knows what over the course of the year than the incremental difference between like $1 a gallon. It's just not that much money. You know? Anyway, um, anyway, I'm not here to argue gas prices. We have a question about the stock market and it's time.

Molly: Hi, Molly and Kai. This is also Molly calling from Durham, North Carolina. I have a question about the stock market. I don't understand how companies receive profit or income from selling stocks. Do they just receive the income with the initial sale of stock? And if that's so, how do they profit or make money from subsequent increase in stock value? Can you explain when and how they actually get paid for the stocks that they sell? Thank you. Please help make me smart.

Molly Wood: I love this.

Kai Ryssdal: Yeah, that's a really, really good question because look, it can be confusing as hell, but here's, here's the, the bare bones explanation, right. So a company is founded, it grows, it's doing well, it decides it wants access to the capital markets, which is to say the stock market, so that it can fuel further growth, right, so it can have capital to grow. So they decide that they're going to go public, they, assuming they're a regular going public process, and which is called IPO, and not a SPAC, which we've talked about on this broadcast, on this podcast. They fought regulatory paperwork, they work with bankers who underwrite it, and they go out and do a bunch of road shows to potential investors and say, here's our products. Here's our growth plan, here are the downsides. Please get ready to buy our stock when we go public. The day comes, Company X sells a million shares of itself and they sell at, at $4 apiece. That company gets the proceeds from that initial sale, right, they get the $4 million, because they have created the shares, they're selling them on the open market. Now, if somebody bought

those shares, then turns around and sells her 200 shares, the company gets no money from that, from that next sale, zero. And for all of time, the company will not make any more money on its shares trading hands, unless it decides to do another share offering. If it decides conditions are ripe, here's what we need to do to get some more capital to grow. And a really great example of this is back in meme stock days of, you know, 12 months ago, when AMC was going bananas, AMCs board of directors and the CEO looked at the market and said holy crap, our shares are up 200% in in, you know, three days because people are crazy. So let's issue some more shares. So the Board of Directors agreed, they filed papers with the SEC, and they filed however, they sold however many more shares it is, and the company gets that money because they created fresh shares, right. But when those fresh shares sold the next day by one of those meme stock guys or the Reddit guys, the company didn't get any of that money. Right? That was all between the two private parties. So that's how that works. So that's step number one. Step number two in the how do companies make money is that what happens when their share prices go up, which most companies shares usually do over time--over time being the operative phrase there--something called their market capitalization goes up as well. They're worth on the stock market, literally what they're worth, right, number of shares outstanding time the share price gets you the market capitalization. Companies can use that market capitalization as a basis upon which to borrow more money. And they can use that for acquisition, for further capital spending, for research and development, whatever, right? But that's borrowed money. That's, that's money that they're going to a bank and saying, listen, we're worth $47 billion dollars on the open market. Can we borrow $1,000? Right. That's what they're doing. And I think that's it. I think that, that’s how companies make money. Well, okay, so companies can also, if they see that their share prices are at a low enough level for them to make it worthwhile to buy their shares and take them off the market, or if they want to, as companies sometimes say they are doing but not really say it out loud, they buy their shares to increase the value of the outstanding shares and making their investors happy. So if Apple went out today and said, we're gonna buy back 10 billion shares, Apple stock would jump some percentage because the fewer shares would be on the market, those shares become more valuable. And Apple has said, we're gonna buy these and take them off the market. share buybacks are a whole sort of Pandora's box of ethics challenges and shareholder value concerns and all of that stuff. But, but, but that's, I mean, that's the basics of it.

Molly Wood: That's so good, such a good question. Like, I just love basic questions. And, honestly, I mean, one thing I love about this audience is that nobody's ever embarrassed to ask it. And that's the whole key because no one really knows, you hear it on the radio all the time, you read in the paper, and it's just as, you know, it's assumed that you know, and you don't and so thank you for asking. It's just awesome.

Kai Ryssdal: Great question. Yeah.

Molly Wood: Also, please write back and tell us what's cool about Durham because now we need to know. Sorry. New Rule.

Kai Ryssdal: Oh, yeah. They got a good baseball stadium. They got a great baseball stadium.

Molly Wood: See? More to come. More on Durham. You know what a great baseball stadium is Reno. That was like a throwaway line in one of the podcasts. You know who has a triple A team and the nicest stadium? Yeah, I want to go to a game there, it was super impressive.

Kai Ryssdal: Also Texas. Great Minor League Baseball Stadium. Sorry. I digress.

Molly Wood: I mean, honestly, well, it's because we're stalling. If we're being honest, it's because we're stalling. We're just tap dancing so we don't have to do this next part. Friends, instead of a last question, I have some news that I want to share with this audience first, nobody else out in the world knows this yet. So depending on when you download this, you're kind of the first to find out, which is that I am leaving Marketplace and Make Me Smart. I am not going to go do journalism somewhere else because there is no place better. I am leaving media to become an investor working with an emphasis on all the climate tech that I have gotten so obsessed with over the past three years. So really, all the reporting I've done is a blessing and a curse. Because I just got the opportunity to hopefully have a more direct kind of impact, and I want to do it. And that is bad news for me and Marketplace and Make Me Smart, and my wonderful, brilliant colleagues. But I will still be here through the end of November. The show will go on and I want you to know this was, I wouldn't do this for anything less than a bucket list option. It's been a bucket list to be here.

Kai Ryssdal: I 100% thought you were gonna cry.

Molly Wood: Well, there's still a month. I was like, prepared for it. I even have tissues, like I'm like, I'm ready. I think I just psyched myself up to power through it. But there's, trust me, there is a crying happy hour in our future. Yeah.

Kai Ryssdal: I will, I will not say goodbye now because I might cry. But we'll do it later. She's around for a month. But anyway.

Molly Wood: I'm gonna be like, stinky fish by then. You're gonna be like, good god.

Kai Ryssdal: Okay, let's not ruin the moment. Can we not ruin the moment?

Molly Wood: I'm trying not to cry. All right. That's it.

Kai Ryssdal: So that's the news. All y'all know before truly, before anybody so, you know, now you can tell people, I guess. We are back tomorrow. And by we I mean not Ms. Wood, she's doing something and it's Marielle who's back for hollowed out shell Thursday. Send us your questions, would you, your make me smiles, we're at makemesmart@marketplace.org, voicemail as well, 508-827-6278, 508-UB-SMART.
Molly Wood: It's just field reporting because how we survive will be finished. We will finish the episode, that's all it is. Don't panic. Today's episode of Make Me Smart was produced by Marissa Cabrera and engineered by Lianna squillace. Our intern is Grace Rubin.

Kai Ryssdal: Ben Tolliday and Daniel Ramirez composed our theme music. Our senior producer is Bridget Bodnar. And there you go.

Molly Wood: There you go. It’s out now. Can't take it back.

Kai Ryssdal: It's out now. Can't take it back. It's actually happening now. That's right, now you have to go. See ya! There we go. You alright?

Molly Wood: Sometimes it will, sometimes when it’s just like, a job to do, you can't get emotional about it. But man, there's gonna be a lot a lot of crying.