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Comment on the Commentary of the Day

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Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed but many were not. The original articles that are being commented on may or may not be available on the internet and may require registration or subscription to access if they are. Some of the original articles are syndicated and therefore may have appeared in other publications also.

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28 September 2008

Editor, Washington Post
1150 15th St., NW
Washington, DC 20071

Dear Editor:

Robert McElvaine doesn't want to kill geese that lay golden eggs ("Their Party Crashed. Ours May Too." Sept. 28). Nevertheless, he asserts that "when profits become too high and taxes on the very rich too low, the geese get obese, eventually stop laying eggs and develop coronary problems." He claims that today's problems are caused in part by insufficiently high taxes on the rich and failure to cut taxes sufficiently for persons at "lower income levels."

This claim is based on a poor diagnosis. Were Mr. McElvaine to take a gander at the data, he'd see that the share of federal income-tax revenues paid in 2006 by the top one-percent of income earners (40 percent) was more than double the share paid by this group in 1980 (19 percent). And this is a higher share not of a fixed amount of revenues, but of a much larger amount of revenues. In 2006 Uncle Sam's tax revenues were 440 percent the size of their 1980 amount.

Mr. McElvaine would see also that, while the average rate of taxation on the top one-percent of income earners fell 32 percent during this time (from an average rate of 34 to one of 23 percent), the average rate of taxation for the bottom half of income earners fell fully 50 percent (from an average rate of 6 percent to one of 3 percent). [Tax data are from The Tax Foundation: http://www.taxfoundation.org/research/show/23408.html; Federal revenue data are from the Congressional Budget Office:

http://www.cbo.gov/budget/historical.shtml] Percentage-wise, lower-income workers received a larger tax cut than did the highest-income earners.

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28 September 2008

Editor, Washington Post
1150 15th St., NW
Washington, DC 20071

Dear Editor:

Robert McElvaine suggests that one cause of today's financial problems is growing income inequality over the past few decades. This inequality allegedly prompts households in the lowest income groups to borrow too much ("Their Party Crashed. Ours May Too." September 28).

A careful look at the data casts doubt on this conclusion. Reckoned in 2003 dollars, the percent of American households annually earning more than $75,000 TRIPLED between 1967 and 2003 - from 8.2 percent to 26.1 percent. And during this same time the percent of households annually earning less than $15,000 fell significantly, from 21.7 percent to 15.9 percent.

Data can be sliced and diced to support a wide range of arguments, but it's pretty clear that, as economist Arnold Kling says, over the past few decades "it has become difficult to avoid being squeezed up into a higher [income] category." [http://econlog.econlib.org/archives/2004/09/squeezed_up.html] Given this fact, McElvaine's suggestion that growing income inequality is playing a role in today's turmoil is not credible.

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27 September 2008

Editor, The Wall Street Journal
200 Liberty Street
New York, NY 10281

To the Editor:

Calling for "A New Deal Deal" (Sept. 27) Katrina Vanden Heuvel and Eric Schlosser offer up only a potted history of the old one and the problem it allegedly solved. For example, the bank failures that prompted the 1933 Emergency Banking Act were emphatically not the result of laissez faire policies. Rather, they were caused by the Fed's disastrous contraction of the money supply and by government restrictions on branch banking - restrictions that prevented banks from sufficiently diversifying their portfolios.

And Ms. Vanden Heuvel and Mr. Schlosser contradict not only history, but also themselves. In one place they assert that the Great Depression was "preceded by years of laissez-faire economic policies" and then, a mere two paragraphs later, they announce that "direct government intervention has played a central role throughout American economic history."

Memo to all concerned: direct government intervention is not laissez faire.

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26 September 2008

Editor, The Boston Globe

Dear Editor:

In "Fish wisely, save fisheries" (Sept. 26) you correctly report that the catch-share system prevents overfishing, but you inexplicably miss a fundamental reason for this happy outcome. This system works to maintain fish stocks not only, as you mention, because each fisherman is given a seasonal allotment to fish based on his past experience. Critical to this system's success also is the salability of these allotments. That is, the catch-share system succeeds because it creates transferable private property rights in fish stocks.

New York Times Science writer John Tierney crisply describes how these property rights work: "Under this system, a fisherman owns the right to a certain percentage of the annual allowable catch in a fishery. These shares, sometimes called individual transferable quotas, can be bought and sold on the market, and their price goes down if the fish population declines. So fishermen have a direct incentive to protect the fishery along with their investment: that way their share will be worth more when they retire and sell it to someone else."[http://tierneylab.blogs.nytimes.com/2008/09/18/how-to-save-fish/?scp=1&sq=%22Individual%20Transferable%20Quotas%22&st=cse]

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25 September 2008

Editor, The Wall Street Journal
200 Liberty Street
New York, NY 10281

To the Editor:

Gerald Tache scolds John McCain for voting to repeal the Glass-Steagall Act (Letters, Sept. 26). Mr. Tache is apparently among those who believe that investment banks and commercial banks work better when kept separate by legislation.

Much research contradicts this conclusion. Here's my colleague Tyler Cowen writing recently at the highly respected blog "Marginal Revolution":

"A significant academic literature has investigated these claims [that pre-Depression combination of investment and commercial banking contributed to the banking crisis] and rejected them. Eugene White, for example, found that national banks with security affiliates were much less likely to fail than banks without affiliates. Randall Kroszner (now at the Fed.) and Raghuram Rajan found that securities issued by unified banks were (ex-post) of higher quality than those issued by investment banks. A powerful book by George Benston went through the entire Pecora hearings which supposedly revealed the problems with unified banking and found them to be a complete sham. My colleague Carlos Ramirez later showed that the separation of commercial and investment banking increased the cost of external finance." [http://www.marginalrevolution.com/marginalrevolution/2008/09/glass-steagall.html]

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25 September 2008

Editor, Washington Post
1150 15th St., NW
Washington, DC 20071

Dear Editor:

David Ignatius might be correct that John Maynard Keynes would support massive government intervention to deal with today's financial turmoil ("What Would Keynes Do?," Sept. 25). But Keynes was not without his subtleties and even his contradictions.

A year after publication of his General Theory, Keynes wrote that "We have, as a rule, only the vaguest idea of any but the most direct consequences of our acts." [John Maynard Keynes, "The General Theory of Employment," Quarterly Journal of Economics, Vol. 51, February 1937] Taking this obviously correct insight seriously might, just might, have led Keynes to worry that even the most expertly designed government intervention of the sort that is underway today will have dreadful unintended consequences tomorrow.

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25 September 2008

Editor, The Wall Street Journal
200 Liberty Street
New York, NY 10281

To the Editor:

Hillary Clinton wants government to temporarily "freeze rate hikes in adjustable-rate mortgages" ("Let's Keep People In Their Homes," September 25).

The Senator's reasoning is akin to that of weak students who ask me to change their grades. I always refuse by saying that grades are like market prices: they reflect an underlying reality. Were I to change a student's grade arbitrarily, I wouldn't change his actual performance in my class or his command of the material. I would merely send to the world a false signal about him - and encourage him to rely on such excuses in the future.

As a teacher, I can't make students smarter simply by lying about the grades they've earned. As a Senator, Ms. Clinton can't make housing more affordable simply by forcing mortgage terms to lie about the reality of high risks and scarce credit that are reflected by unregulated mortgage-interest rates.

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24 September 2008

Friends,

Here's another gem from my colleague Russ Roberts: his participation in yesterday's edition of NPR's "Talk of the Nation." The segment with Russ starts around the 12:30 mark, with Russ first coming in around 18:20.

When you click on this link below, try not to retch at the jejune title of the program:

http://www.npr.org/templates/story/story.php?storyId=94930841

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24 September 2008

Friends,

Here's a short interview that The New Yorker did with my colleague and co-blogger, Russ Roberts:

http://www.newyorker.com/online/blogs/books/2008/09/selected-emails-2.html

Most enlightening!

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24 September 2008

Editor, The Wall Street Journal
200 Liberty Street
New York, NY 10281

To the Editor:

You introduce several letters on Amity Shlaes's interpretation of the New Deal with this headline: "New Deal Brought Hope, but Not End of Depression" (Sept. 24).

What "hope"? The New Deal – as convincingly argued by Ms. Shlaes, by professional economic historians such as Robert Higgs, and by most of your letter-writers – deepened and prolonged the Depression. Any "hope" that ordinary Americans found in the New Deal was as justified as the hope that the Trojans found in the large wooden horse left for them by the Greeks.

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23 September 2008

Editor, The Washington Times

Dear Editor:

On top of Uncle Sam's unprecedentedly large bailout plan comes calls from top business executives for "comprehensive industrial policy" ("Ford, Dow execs to discuss national summit in '09," September 22).

Let's keep our heads. Despite the turmoil, Americans today remain incredibly wealthy. This fact is evidence that capitalism works very well even though it is never textbook perfect. Calling for a fundamental restructuring of an economy that produces such widespread prosperity is, at best, an irresponsible overreaction.

More likely, though, this call for industrial policy is a ploy by business executives to find shelter from the bracing winds of competition. By trying to plan the economic future, any such policy necessarily tramples innovation and consumer sovereignty. Anything at odds with the policy - such as an unforeseen new product, a creative new technique of production, or simply a change in consumers' tastes - must be squelched, for otherwise the policy falls apart. Many existing firms (especially large ones such as GM and Dow Chemical, who have the resources to influence government) will benefit from industrial policy - but only because such policy inverts the economy from one in which producers exist to satisfy consumers to one in which consumers (and taxpayers) exist to satisfy producers.

Such a policy will make most of us much, much poorer.

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23 September 2008

Editor, The New York Times
229 West 43rd St.
New York, NY 10036

To the Editor:

According to your headline, Congress is "angry" over the "the steep cost" of the bailout plan ("Talks On Bailout Plan Advance; Congress Is Angry and Skeptical," September 23). While I understand that members of this body are actors by trade, I wish that in this case they'd spare us their histrionics. This mess is largely their fault.

In today's Wall Street Journal, Charles Calomiris and Peter Wallison report that Congress, seeking to promote "affordable housing," encouraged Fannie and Freddie to make irresponsible loans. Rep. Barney Frank (D-MA) crowed in 2003 that "Fannie Mae and Freddie Mac have played a very useful role in helping to make housing more affordable ... a mission that this Congress has given them in return for some of the arrangements which are of some benefit to them to focus on affordable housing." As Messrs. Calomiris and Wallison add: "The hint to Fannie and Freddie was obvious: Concentrate on affordable housing and, despite your problems, your congressional support is secure." [“Blame Fannie Mae and Congress For the Credit Mess,” Wall Street Journal, Sept. 23: http://online.wsj.com/article/SB122212948811465427.html]

The chickens now coming home to roost were genetically engineered by Congress.

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22 September 2008

Editor, Washington Times

Dear Editor:

Re the current financial turmoil: suppose Uncle Sam were the monopoly supplier of steel. An independent board of Very Smart People meets monthly to determine the nation's steel supply. If this board gets matters correct, the resulting price of steel prompts producers and consumers to use steel wisely. But if the board guesses wrongly and, say, increases the steel supply too much, the market will overuse steel. Products that would have been better made with aluminum or plastic, or not made at all, will instead be made with steel. And production plans made in anticipation of a continuing 'easy steel' policy will be disrupted if the board changes course.

Unless this steel board gets things right with superhuman regularity, the structure of the economy will become grossly distorted over time. In addition, producers and investors will be forever anxious about upcoming decisions of the steel board.

We avoid this fate because steel is supplied by markets, with competitive producers and consumers adjusting daily to new information about changing opportunities and costs of using and manufacturing steel. No one worries about getting the steel supply right, for markets do that job remarkably well.

Unfortunately, the same isn't true for money. Its supply is determined consciously by a board. Unable to know and adjust to changes in people's demand for money - and subject always to political pressures to grease the economy with the snake oil of easy money - the Federal Reserve distorts the economy with its inevitably mistaken decisions on the supply of money. Asset bubbles are part of the price we pay for this primitive way of supplying money.

Markets should supply money just as they supply steel - and experience (for example, Scotland and Canada in the 19th century) shows that they do so when given the opportunity.

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22 September 2008

Friends,

Here's a brand-new podcast, from EconTalk, of Karol talking with Russ Roberts about wildlife management in Africa. Enjoy!

http://www.econtalk.org/archives/2008/09/karol_boudreaux_1.html