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Comment on the Commentary of the Day

by
Donald J. Boudreaux
Chairman, Department of Economics
George Mason University
dboudrea@gmu.edu
http://www.cafehayek.com

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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15 November 2009

Editor, The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

Columnist Paul Krugman writes that policies to promote "job sharing" are "worthy of consideration" ("Free to Lose," Nov. 13).

Let's start at the New York Times. I know several PhD economists currently without jobs (and certainly without regular newspaper columns). I propose that Times Co. chairman Arthur Ochs Sulzberger, Jr. reduce Mr. Krugman's presence on the page to, say, one column per year. The remaining hundred or so columns that Mr. Krugman would otherwise have written for the NYT can be written by unemployed economists.

I'll be very happy to supply Mr. Sulzberger with names of economists who need the work.

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15 November 2009

Editor, The New York Times Book Review
620 Eighth Avenue
New York, NY 10018

To the Editor:

Paul Barrett's review of two new books on today's financial crisis is a verbal bubble inflated by its author's irrational exuberance for naïve conventional wisdom and his greedy reliance upon morality-play explanations ("Rational Irrationality," Nov. 15).

The review never mentions any of the many decidedly anti-laissez-faire interventions leading up to the crisis, such as Uncle Sam's creation and backing of Fannie and Freddie; or politicians pressuring lenders to make mortgages "more affordable"; or the Fed's 1998 bailout of Long Term

Capital Management (and the dangerous signal that that bailout sent to Wall Street); or the Fed's lose monetary policies leading up to the crash.

This latter omission is especially egregious given Mr. Barrett's favorable mention of John Cassidy's claim that Adam Smith himself allegedly supported heavy regulation of financial markets. The quotation from the "Wealth of Nations" that convinces Mr. Cassidy and Mr. Barrett that Adam Smith was a proto-Barney Frank on matters of financial regulation appears in Smith's discussion of paper money. In this quotation Smith endorses restrictions on banks' issuance of paper money to the general public. Paper money, Smith believed, is appropriate only for "dealers." Regardless of the merit of Smith's argument here, it is clearly not an endorsement by Smith of widespread regulation of financial markets. Indeed, as money-and-banking historian George Selgin notes, "Apart from endorsing the banning of small bank notes and notes bearing option clauses, Smith favored financial industry freedom." [Private e-mail correspondence from Selgin to me, 15 November 2009]

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14 November 2009

Editor, The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

Paul Krugman is impressed that in Germany "unemployment is only slightly higher than it was before the crisis" ("Free to Lose," Nov. 13). Indeed, Krugman is so bedazzled by the results of Germany's extensive labor-market interventions that he writes that America "might have something to learn" from "Germany's jobs miracle."

Let's explore this "miracle" with facts. OECD data reveal that annual unemployment rates in Germany during the ten-year period from 1998 through 2007 (the latest year for which consistent data are available) never fell below 7.5 percent and soared as high as 10.6 percent (in 2005). Over these ten years, Germany's unemployment rate averaged 8.9 percent. [Data available for both countries here: http://stats.oecd.org/Index.aspx?DatasetCode=CSP2009]

During the same period, America's annual unemployment rate never rose above 6 percent (which it reached in 2003), and was as low as 4.0 percent (in 2000). It averaged over these ten years 4.9 percent - fully four percentage points lower than the corresponding figure for "miraculous" Germany. This fact means that if America during these years had had the same unemployment rate as Germany, roughly 5.5 MILLION more Americans would have been unemployed.

Even if Germany's restrictive labor policies are the reason that that country's unemployment rate is today lower than is the current rate in the U.S., a longer-run perspective suggests that America has far less to learn from Germany than Germany has to learn from America.

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13 November 2009

Editor, The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

To combat unemployment, Paul Krugman supports "labor rules that discourage firing" ("Free to Lose," Nov. 13). If a student in my Principles of Economics course ever wrote such a thing on an exam, he or she would earn an F.

But no student in my class would ever write such nonsense. My students learn from day one to distinguish intentions from results. So my students understand that the intention of such labor rules might be to decrease unemployment, but that the result will be to increase it - because my students also understand that labor rules that discourage firing raise employers' costs of hiring workers to begin with. Firms will think twice - thrice! - before hiring employees who, once on the job, are difficult to fire.

If the goal is to increase employment, raising firms' costs of hiring unemployed workers is emphatically counterproductive.

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13 November 2009

Friends,

Russ Roberts, my colleague and co-blogger at Cafe Hayek, offers keen insight and wisdom in this article, available at the link below, entitled "How Little We know."

http://www.bepress.com/ev/vol6/iss11/art3/

Here's the summary: "If only preventing financial crashes were as straightforward as preventing airlines crashes. Russell Roberts explains the implications for future financial reform. "

Learn and enjoy.

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11 November 2009

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

To the Editor:

Thomas Frank worries that, if Uncle Sam creates "One Big Regulator" for financial markets, this czar will be an industry insider who does more harm than good ("The Real Danger of 'One Big Regulator'," Nov. 11). Frank is right to worry. But his prescription - hoping that appointees to the post will unfailingly be noble and wise public servants - is childish.

Even if we can imagine a super-regulator operating in ways that increase the efficiency and stability of financial markets, the prospect that he or she will be either inept or untrustworthy is far too great to risk concentrating such enormous power in a single person or agency. In practice, what must be reckoned with is the allure of power, its corrupting influence, and the imperfections in even the finest individual's knowledge and judgment. These unavoidable realities of the human condition will result in this "One Big Regulator" - whose hands, at best only loosely tied, will be on all of the nation's financial levers - injecting into financial markets systematic risks far GREATER than those that already exist.

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10 November 2009

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

Dear Editor:

Robert Samuelson writes that "Depression prevention means supporting consumption and asset markets" ("The next economic bubble?" Nov. 10). This claim contains a modicum of truth resting atop a mountain of misunderstanding.

What's true is that the supply of money should be prevented from collapsing relative to people's demand for money. But beyond this, policies to "support consumption and asset markets" cause trouble.

At any given point in time consumption markets and asset markets compete against each other for resources. If income-earners spend more, they must save less, and vice-versa. Sound money allows interest rates to accurately reflect income-earners' preferences for deferring consumption - that is, for investing resources in asset markets. The huge problem with active monetary policies - and not least with those that aim to restore prices to boom levels - is that these policies distort interest rates, causing markets to misallocate resources between consumption markets and asset markets. The upshot is the recurrent need for markets to slough off investment projects that are not sustainable over the long haul.

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9 November 2009

Editor, The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

Arguing that "economic incentives in health care" are perverse, David Leonhardt asserts that "As long as doctors and hospitals are paid for each extra test and treatment, they will err on the side of more care and not always better care. No doctor or no single hospital can change that. It requires action by the government" ("Making Health Care Better," Nov. 4).

Hogwash. To see why, change just a few words in the above quotation: "As long as sales people and clothing stores are paid for each extra necktie and nightie that they sell, they will err on the side of more selling and not always better customer service. No salesperson or single clothing store can change that. It requires action by the government."

Make sense? Of course not.

The problem isn't fee for service; it's subsidized payments by third-parties. The result for medical treatments is no different than it would be for clothes if clothing retailers were paid not by each customer but instead by heavily subsidized third-parties.

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9 November 2009

Editor, The New York Times
620 Eighth Avenue
New York, NY 10018

To the Editor:

Slavoj Zizek rightly complains - if with understatement bordering on the vulgar - of being "deceived" by communism

("20 Years of Collapse," Nov. 9). But like many other pundits who feign wisdom by steering clear of what they mistakenly interpret to be an extreme position, he complains also of being "disillusioned" by capitalism.

Capitalism is indeed poles apart from communism, but not in a way that renders society best served by some compromise between the two. Unlike communism and milder forms of collectivism, capitalism is not imposed; it is simply what arises when adults are free to engage in consensual commercial acts in cultures that respect private property rights and largely reject both status and superstition as guides to decision-making. Also unlike communism, capitalism conscripts no one to serve other persons' ends; individuals can opt out of capitalist societies.

Perhaps most importantly, unlike communism, capitalism promises neither to produce heaven on earth nor to engineer any New and Better Man - and so capitalism gives rise to none of the murderous zealotry endemic to communism.