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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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21 November 2010

Editor, Los Angeles Times

Dear Editor:

Robert Lutes writes that "Anti-government types tend to hoard their wealth. If we have to force the wealthiest to help fuel our economy and rebuild our infrastructure, so be it" (Letters, Nov. 21).

Overlook Mr. Lutes's strange suggestion that people who wish to rein in government are especially likely to stuff their wealth into their mattresses. Overlook also his call for government to follow the same 'principles' that guided Willie Sutton.

Instead, recognize that the vast majority of people who have wealth (be they 'Progressives' from Manhattan or libertarians from Montana) have already "fueled" the economy by producing successfully for the market.

Public discussions of economics will continue to be confused unless and until the likes of Mr. Lutes come to understand that the challenge in fostering economic growth lies not in persuading people to treat themselves to desirable goods and services. The challenge, instead, is to give people appropriate incentives to innovate and produce. Efforts to meet this challenge are only set back by Mr. Lutes's economic ignorance and bank-robber ethics.

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20 November 2010

The Editor, The Economist.com
25 St James's Street
London SW1A 1HG
United Kingdom

SIR:

Will Wilkinson's essay on income inequality in America is splendid ("This ain't no banana republic," Nov. 19)." In it, Mr Wilkinson correctly challenges New York Times columnist Nicholas Kristof's claim that "the wealthiest plutocrats now actually control a greater share of the pie in the United States" than in several countries of Latin America. Rich Americans, Mr Wilkinson rightly points out, overwhelmingly are business people who serve the middle-classes and not political, military, or ecclesiastic predators who steal from peasants.

This fact makes Mr Kristof's claim that wealth is "controlled" in America highly misleading.

Except insofar as rich Americans succeed at getting government to protect their wealth with special privileges, such as tariffs, wealth is not "controlled." Wealth is created only by serving consumers - that is, by making others wealthier - and it flees from those who stop serving consumers. Should Apple stop producing innovative products that consumers willingly buy, Steve Jobs's fortune will disappear. Should Southwest Airlines start charging uncompetitive fares, its shareholders' wealth will dissolve. Should a super-wealthy hedge-fund manager consistently fail to increase the value of his clients' portfolio, he will become a not-so-super-wealthy ex-fund-manager.

In market economies, wealth isn't controlled so much as it is deployed in the service of others.

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18 November 2010

Editor, The Wall Street Journal
1211 6th Ave.
New York, NY 10036

To the Editor:

The farce becomes more farcical.

Fed Chairman Ben Bernanke, fresh from injecting hundreds of billions of new U.S. currency units into the economy - and from planning the injection of yet an additional 600 billion such units - criticizes the Chinese government for injecting hundreds of billions of new Chinese currency units into the economy ("Bernanke Takes Aim at China," Nov. 18). Apparently, when Beijing increases the supply of Chinese currency it does so as part of what Prof. Bernanke ominously labels a "strategy of currency undervaluation," but when Uncle Sam does the same thing it's called "quantitative easing" and "a move in the right direction."

And then there's this gem that you report: "Mr. Bernanke notes that in preventing the yuan from appreciating, China has accumulated a massive $2.6 trillion stock of U.S.-dollar assets." No mention by Prof. Bernanke that the Bush-Obama 'stimulus' spending was accomplished only because Uncle Sam sold jubababillions of U.S. Treasuries. Poor, innocent Uncle Sam - heroically borrowing from creditors eager to lend. And rich, dastardly China - connivingly lending to debtors eager to borrow.

Can anyone articulate an adult reason why we treat the pronouncements and predictions of Prof. Bernanke and other Washington maharajahs more seriously than we treat the proclamations of late-night infomercial announcers or the predictions of Nostradamus junkies?

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18 November 2010

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

Dear Editor:

George Will doubts the Fed's ability to carry out its "dual mandate" ("The trap of the Federal Reserve's dual mandate," Nov. 18). His doubt is well-founded.

This mandate, as described in 2007 by Federal Reserve governor Frederic Mishkin, is for the Fed "to promote the two coequal objectives of maximum employment and price stability." [Frederic S. Mishkin, "Monetary Policy and the Dual Mandate" (April 2007): http://www.federalreserve.gov/newsevents/speech/mishkin20070410a.htm]

How's it doing?

The Great Depression occurred on the Fed's watch, as have several other recessions. As for price stability, from the Fed's creation - in 1913 - to 1945, the dollar lost 45 percent of its value; between 1945 and 1980 it lost another 78 percent of its value; and between 1980 and today yet another 62 percent of the dollar's value was inflated away. All told, during the less than 100 years that the Fed has been charged with keeping the value of the dollar stable, the dollar has lost 95 percent of its value. This shrinkage in the dollar's value since 1913 is especially striking in light of the fact that, between 1790 and 1913, the dollar's value declined by only about 8 percent. [See George Selgin, William D. Lastrapes, & Lawrence H. White, "Has the Fed Been a Failure?" (Working paper, Nov. 2010), p. 3: "far from achieving long-run price stability, it [the Fed] has allowed the purchasing power of the U.S. dollar, which was hardly different on the eve of the Fed's creation from what it had been at the time of the dollar's establishment as the official U.S. monetary unit, to fall dramatically. A consumer basket selling for $100 in 1790 cost only slightly more, at $108, than its (admittedly very rough) equivalent in 1913. But thereafter the price soared, reaching $2422 in 2008." http://www.cato.org/pub_display.php?pub_id=12550]

Given this performance, Americans should be well and truly fed up.

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17 November 2010

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

Dear Editor:

George Will's superb column on the Fed's over-expansive "dual mandate" ends with an apt warning from the late Nobel laureate economist F.A. Hayek that any attempt to engineer economies - even via monetary policy - is evidence of a "fatal conceit" ("The trap of the Federal Reserve's dual mandate," Nov. 18). It's unsurprising, therefore, that Hayek was among the first economists to call for removing government from the business of supplying and regulating money.

In 1976, Hayek published a pioneering monograph entitled "Denationalisation of Money" [F. A. Hayek, Denationalisation of Money, (London: Institute of Economic Affairs, 1976). A substantially revised second edition was published in 1977] in which he argued that not only can markets supply sound money, but that markets are likely to do so far more reliably than will any government or central bank.

Hayek's work is the font of a fertile river of research on the history and theory of 'free banking' (whose chief contributors are my GMU colleague Lawrence White and my former GMU colleague George Selgin [See, e.g., George A. Selgin and Lawrence H. White, "How Would the Invisible Hand Handle Money?" Journal of Economic Literature, Dec. 1994, Vol. 32, pp. 1718-

1749]). This research leaves no doubt that, had money been supplied privately from the start of the republic, U.S. economic growth would have been both steadier and steeper.

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17 November 2010

Editor, Miami Herald

Dear Editor:

Fed Chairman Ben Bernanke predicts that the Fed's injection into the economy of $600 billion will, over the course of two years, create 700,000 jobs ("GOP leaders blast Fed's economic aid program," Nov. 17).

Sounds impressive - until you calculate that that's a per-job cost of $857,143!

On one hand, this jobs number is striking given that these jobs will materialize merely as a result of the Fed crediting banks' reserve accounts with oodles of dollars. On the other hand, when reckoned per-dollar - or, rather, when reckoned per 600 BILLION dollars - the number of jobs 'created' is paltry.

Mr. Bernanke might respond that these jobs will be held for many years, so this large per-job cost must be spread out over time. But each of these workers, earning the average annual salary in the U.S. today of $42,000, would have to work more than 20 years before exhausting his or her share of the $600 billion.

Of course, with the likelihood of rising inflation, $857,143 - even as an annual salary - might be slave wages by 2031.

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17 November 2010

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

Dear Editor:

Hoping to revive the 'Progressive' agenda, Katrina vanden Heuvel calls on surviving Democrats in Congress to "sharply define choices for the American people" ("Amid losses, some ways for House Democrats to gain," Nov. 17).

Curious choice of words, for 'Progressives' aren't noted for their love of choice (save on the issue of abortion). This is a political movement infiltrated by protectionists eager to restrict Americans' choices to buy foreign-made products. It's a political philosophy dedicated to the proposition that all men and women are created equally stupid and gullible – so stupid and gullible that individuals cannot be trusted to choose what wages to work for (see 'Progressive' support for minimum-wage and 'equal-pay' legislation); to choose what to ingest (see 'Progressive' support for bans on certain foods and their ceaseless crucifixion of tobacco companies); to choose how to arrange their own financial affairs and to provide for their own retirements (see 'Progressive' support for regulations on consumer credit and for Social Security); and to choose how best to educate their children (see 'Progressive' hostility to reforms that promote school choice).

Ms. vanden Heuvel and her ilk want Americans to choose only to be 'nudged,' fettered, and otherwise denied the right to choose for themselves.

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16 November 2010

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

Dear Editor:

Leonardo DiCaprio and Carter Roberts rightly worry about the potential extinction of the tiger ("If we save the tigers, we'll save the planet," Nov. 14). But their proposals for protecting tigers bear all the stripes of economic misunderstanding.

By making tigers (and tiger skins) even more rare on world markets, stricter regulations, of the sort these activists propose, against tiger poaching will only increase the profits earned by successful poachers. Such prohibitions on trafficking in tigers and tiger skins will be as successful as are today's strict prohibitions on trafficking in marijuana and cocaine.

A far-better approach to saving tigers as a species is to privatize them. Create private property rights - individual or community-based - in tigers (as has been done in some countries with elephants). This simple solution gives identifiable owners (rather than government bureaucrats) specific, powerful incentives to protect their privately owned cats from poachers while, at the same time, giving these owners incentives to keep the breeding population of their tigers sufficiently large to ensure that these valuable creatures continue to reproduce.

Just as the private ownership of chickens eliminates any threat that chickens will go extinct despite the huge demand for chicken meat, the private ownership of tigers will have the same happy effect for these big cats.

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16 November 2010

"Exporter"

Dear "Exporter":

You object to my recent letter in which I argue that there is nothing special about American producers selling to foreigners as compared to selling to other Americans. "Foreign buyers," you say, "pay us with money earned there [presumably, in foreign countries] and not here."

Not quite. Money spent by foreigners on U.S. exports can be dollars originally earned in the U.S. For example, Sony might buy legal advice from a New York law firm using dollars that Sony earned by selling consumer electronics in the U.S.

More importantly, though, foreigners buy American exports ultimately with goods and services they produce and then exchange for the dollars demanded by American sellers. In this way, foreigners are identical to non-foreigners: they earn the income they need to buy U.S. output only by producing valuable output of their own.

For this reason, it makes no more sense to applaud (or to lament) a greater volume of sales made to foreigners than it does to applaud (or to lament) a greater volume of sales made, say, to people with blue eyes or to people who drive red cars. In all cases, these people will buy more U.S. output only if they themselves produce more output in exchange. And the American producers who make these additional sales are no better off if these sales are made to the British or to the Koreans rather than to the Blue-Eyedish or to the Red-Carians.

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16 November 2010

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

To the Editor:

In midst of sensibly analyzing the recommendations of President Obama's fiscal commission, Glenn Hubbard trips over a slab of mercantilist malarkey when he writes "To meet the nation’s fiscal challenges, we need to refocus our economic activity - primarily with less reliance on consumption and more on investment and exports" ("Left, Right and Wrong on Taxes," Nov. 16).

Vigorous economic growth does indeed require investment, but the nationalities of the persons to whom the fruits of this growth are directly sold - no less than the nationalities of the persons whose savings fund the investment - are irrelevant. In principle, economic growth sufficient to "meet the nation's fiscal challenges" requires no increase in exports. What IS required are policies that spur entrepreneurs and investors to produce more goods and services demanded by consumers; whether the persons who directly consume the increased outputs of American firms live in Jakarta or in Jacksonville is of little significance.

In practice, economic growth is indeed likely to lead to more exports - which is perfectly fine - but government officials need not design policies to achieve this outcome. Quite the contrary, for policies aimed at increasing exports inevitably become vehicles for erecting trade barriers.

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15 November 2010

Senator Lindsey Graham (R-SC)
Capitol Hill
Washington, DC

Dear Sen. Graham:

Yesterday, The Hill reported on your "disappointment" that Pres. Obama failed to persuade Beijing to raise the value of China's currency. In response to this 'failure,' you proclaimed that "They [the Chinese] already have enough advantages."

Given your belief that a currency whose value is lower than you think it should be confers "advantages" upon its holders, I hereby offer to confer such advantages upon you and your family. Before you or anyone else in the Graham household spends dollars, contact me first. I will give you a fifty-cent coin in exchange for each dollar that you would otherwise have spent on your purchases. You will then make your purchases using only the 50-cent coins. That is, you will have a lower-valued currency unit to spend rather than be burdened by the heavy yoke of having to spend a higher-valued currency unit.

I promise to do this exchange for each and every dollar that you and yours wish to spend, for as long as you wish. In this way, you will effectively devalue the currency used by the Graham household and, I presume (because you are a knowledgeable and thoughtful U.S. Senator who decries using a currency that is over-valued relative to other currencies), earn for your family great riches and other "advantages."

Do we have a deal?

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15 November 2010

Editor, Los Angeles Times

Dear Editor:

You report that "The markets also have been throwing the Fed another curve: While the goal of QE is to keep longer-term interest rates depressed, market yields on Treasury, corporate and municipal bonds jumped at the end of last week even as the Fed's Treasury-purchase program ramped up" ("Fed's bond-buying plan faces new assault by critics," Nov. 15).

This "curve" is no coincidental occurrence. It's a direct and predictable consequence of the Fed's diarrhea of dollar creation. That agency's goal might well be "to keep longer-term interest rates depressed," but economies reflect realities and not mere intentions. And the reality is that market participants understand that this massive increase in the supply of dollars will spark higher inflation. Creditors thus insist on higher long-term interest rates to compensate them for the dollar's falling value.

If this jump in bond yields is indeed a "curve," it's one thrown, not by markets, but by the Fed itself - and it's thrown not so much at the Fed, but at the heart of the economy.