2011 ISSUE B>Quest BUSINESS QUEST 1996 - 2011

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.

---

13 March 2011

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

Dear Editor:

Steven Pearlstein is insufficiently critical of Dani Rodriks's latest brief against free trade ("Review: Dani Rodrik's 'The Globalization Paradox'," March 13).

For example, while it might be true that countries most open to trade today also tend to be countries with the largest governments, this fact doesn't prove Prof. Rodriks's claim that free trade can be successful only if its consequences are managed by a large, activist state. Hong Kong remains today the most open country in the world, trade-wise, yet its government is also the world's smallest. Singapore - the world's second-most open country - also has one of the world's smallest governments. Yet citizens of these countries are among the wealthiest people on the planet.

Or consider America before the New Deal. Although relatively high national tariffs were the norm during that period, America itself was a vast and vibrant free-trade zone. Textile-producing innovations in the Carolinas "disrupted" (to use Prof. Rodriks's term for economic change) the economy of New England; meatpacking innovations in Illinois "disrupted" the economy of Texas; transportation innovations in Michigan "disrupted" economies everywhere. Yet there was no government, at any level back then, imposing - on all Americans freely trading with each other - "the same set of rules" that Prof. Rodrik fancies is necessary to make free trade both successful and accepted.

---

13 March 2011

Editor, The New York Times
620 Eighth Avenue

New York, NY 10018

To the Editor:

Roger Cohen writes that "British research has suggested that money itself does not confer happiness, although wealthier people tend to be happier; that employment is critical to self-esteem; that women tend to be happier than men; and that people need something beyond the material for fulfillment" ("The Happynomics of Life," March 13).

No doubt. It's too long a leap, though, from these (unsurprising) facts to Mr. Cohen's conclusion that we would be just as happy living in an economy that is less materially productive, but that has more leisure, than the economy that we live in now.

Economist Dwight Lee, who studies happiness research deeply, speculates realistically on "what conditions would prevail if no one possessed the ambition to work hard to achieve an illusory ... happiness. In such a world, everyone would choose to occupy the slow lane." While it's true that we'd spend more of each day enjoying our families and friends, this "easy life would not be nearly as attractive" [Dwight R. Lee, "Who Says Money Cannot Buy Happiness?" The Independent Review, Vol. 10, Winter 2005, pp. 385-400; the quotations in the letter are from page 388: http://docs.google.com/viewer?a=v&q=cache:yamg2AgEW4kJ:www.independent.org/pdf/tir/tir_10_3_05_lee.pdf+dwight+lee+happiness&hl=en&gl=us&pid=bl&srcid=ADGEESgMRxV8K6tokf8Le2jEOE-2-6xOXdc35ZeQUxuXrwrlszFjWB7enpo0q2TwXocfXjBFo5a-Vym8oNOr5_Q9dKNI8LuHtdBvaUKleJsCGhLjS7Fil6_wG5o6fSHTSMfAgaJ925TT&sig=AHIEtbRhgQF718zCIHwFB_X12cOInDIsoQ] as Mr. Cohen and other denizens of today's world imagine it would be.

One example: the reduction in medical research would cause mortality to rise. It's not at all clear that a salesman who lives in a more leisurely world but whose child dies of pneumonia would be just as happy as a hard-driving salesman living in today's world in which physicians, researchers, and profit-grubbing pharma executives - motivated by personal ambition - stress themselves out and work long hours to supply the medical care that relieves parents of the constant worry that diseases such as pneumonia and influenza will kill their kids. Likewise for many other features of our daily lives that we take for granted but that we enjoy only because of the ambitious striving that capitalist incentives promote - features whose disappearance from our lives would make us most unhappy.

---

12 March 2011

Friends,

In this very interesting podcast, my GMU Econ colleague Larry White talks with Cal State - Northridge economist Shirley Svorny on the issue of licensing medical doctors: http://econjwatch.org/podcast/shirley-svorny-on-medical-licensing

Adam Smith would agree with Prof. Svorny (and with Larry, and with me) that "licensing reduces the quantity and quality of health care"; see the Great Scot's letter to the physician William Cullen here (you must scroll down quite a way to see Smith's letter): http://oll.libertyfund.org/?option=com_staticxt&staticfile=show.php%3Ftitle=203&chapter=57957&layout=html&Itemid=27

---

11 March 2011

Mr. Ian Fletcher

Dear Ian:

You continue to misunderstand the case for free trade. Let's take two examples from your latest essay ("Free Trade Theory Known to be Wrong – Since 1817!"), which you exported to me yesterday by e-mail.

First, it's untrue that "The economic argument for free trade is ultimately based on the theory of comparative advantage." Comparative advantage does supply one important basis for justifying free trade. But as Adam Smith showed, specialization and exchange generate net economic gains independently of specialization according to comparative advantage. Likewise with the greater ability made possible by expanding markets for producers to take advantages of larger economies of scale.

Second, contrary to your claim, the principle of comparative advantage applies even when capital is mobile. Mobil capital can CHANGE the pattern of comparative advantage, but this mobility doesn't eliminate comparative advantage. The reason is that a producer has a comparative advantage whenever the amount of good A that he (or it) can produce relative to the amount of good B he can produce differs from the amount of good A that some other producer can produce relative to the amount of good B that that other producer can produce. Unless and until the opportunity cost of producing EVERY good and service in the world is identical for EVERY producer in the world, comparative advantage will exist and provide occasions for mutually productive specialization and trade.

Capital mobility is highly unlikely to bring about such a weird, universal equality in productive capacities. But if, per chance, it should, still no need to worry: see Example 1 (above).

---

11 March 2011

Friends,

On Wednesday's Freedom Watch with Judge Napolitano I criticize current Congressional efforts to cut government spending as being jokes; my segment starts at the 30-minute mark: http://freedomwatchonfox.com/2011/03/11/03092011-freedom-watch-w-michele-bachmann-lou-dobbs-eric-margolis-shikha-dalmia-more/102106/

If every cent of the GOP's proposed budget cuts are adopted, a whopping 1.6 percent of fiscal 2011 U.S. government spending will be cut. If, instead, the

Democrats' proposal to 'rein in' spending are adopted, 0.17 percent of fiscal 2011 federal-government spending will be cut. How courageous and far-sighted are our leaders.

---

10 March 2011

In a blog post other than the one I respond to below, Paul Krugman admits that, because "life is short," he seldom or never reads "conservative sites" (because "I don't know of any economics or politics sites on that side that regularly provide analysis or information I need to take seriously"): http://krugman.blogs.nytimes.com/2011/03/08/other-stuff-i-read/

I can only imagine the spin that Krugman puts on the fact that many of us not of the left-liberal persuasion routinely read not only his stuff, but that of other statists as well.

....

You [Paul Krugman] are appropriately disgusted at Newt Gingrich's excuse that his patriotic devotion to his work on behalf of America is what prompted him to leave his first wife and also his second wife. Then, with Mr. Gingrich in mind, you ask "How did people like this end up running America?"

This is a very strange question to be asked by an economist - someone who should especially understand that countries aren't "run" by politicians or by any other so-called "leaders." Any remotely successful country (or society or economy) operates overwhelmingly without central direction. No one is in charge or could possibly BE in charge. This insight, of course, comes from ECON 101.

Who directed you to write this blog post? Speaker Boehner? I'm guessing not; you wrote it of your own accord. Ditto for your decision to study economics. Princeton's and the NYT's decisions to hire you - and your decision to work for them - are similarly the products of private considerations, negotiations, and actions rather than the consequence of orders handed down from the state.

Now you'll likely respond that I'm reading your comment too literally; you mean - not run "America" - just run the government. But if THIS is what you mean, why are you among today's leading voices calling for ever-more government power to "run" the country? Even if it were possible that incorruptible saints could somehow "run" a country better than do the spontaneous forces of the market and of civil society, the fact that highly flawed human beings such as Newt Gingrich (and too many others to name) routinely rise to positions of great authority in government should cause you to pause from your incessant campaign to transfer more and more decision-making power from individuals to government.

Perhaps you should re-read Mary Shelley's most-famous novel.

---

10 March 2011

Editor, MSNBC.com

Dear Editor:

Martin Crutsinger asserts that "A widening trade deficit hurts the U.S. economy. When imports outpace exports, more jobs go to foreign workers than to U.S. workers" ("U.S. trade deficit widens as price of oil surges," March 10).

Although Mr. Crutsinger makes this assertion frequently, I challenge him to do what I don't recall him ever doing - namely, offering supporting evidence.

He'll have difficulty finding any.

Evidence to the contrary, however, is abundant. For example, America ran a trade surplus for all but 18 of the 120 months of the greatly depressed decade of the 1930s. For the 1930s as a whole, the U.S. trade surplus of $4.92 billion means that U.S. exports during that decade were 23 percent higher than U.S. imports. Yet U.S. unemployment remained unprecedentedly high. [http://cafehayek.com/2006/12/if_trade_surplu.html]

More recently (according to data reported by Daniel Griswold in his book Mad About Trade), between 1982 and 2008 America's unemployment rate ROSE over spans of months when America's trade deficit fell, and the unemployment FELL over spans of months when America's trade deficit rose.

True, data showing that U.S. trade deficits are correlated positively with low, rather than high, rates of unemployment don't prove that Mr. Crutsinger is mistaken. But in light of these data - and in light of the fact that higher U.S. trade deficits mean that more capital flows into the U.S. and, therefore, plausibly promotes economic growth - for Mr. Crutsinger to 'report' as if it's an established fact that "a widening trade deficit hurts the U.S. economy" is professional malfeasance.

---

9 March 2011

Mr. Ian Fletcher
Proud Protectionist

Dear Ian:

In your latest essay at the Huffington Post you state that sensible protectionists, like you, want to use tariffs to protect, not "dying" industries, but, rather, only industries of "the future" ("Protectionism of the Past vs. Protectionism of the Future," March 9).

Who but a backwoods bumpkin doesn't cheer for the industries of "the future"? But I've some questions.

- How do we identify such industries? Who'll be charged with determining which industries are of "the future" and which industries are sufficiently passé as to be left unshielded from being slain by foreign competition that you suppose is the inevitable fate of all U.S. industries not protected by high U.S. tariffs?

- What criteria will be used to distinguished industries of "the future" from what I suppose ought to call "industries of the past"? Rates of return on capital? Total volume of employment? Rates of annual productivity growth? Rates of export growth? Total amount of corporate taxes paid? The technological 'wow-ness' of the industries' outputs - as determined, perhaps, by the amount of positive attention such outputs receive from nightly network news reporters? The age of the industry?

Oh! I know the answer: total dollar amount of contributions to the campaigns of incumbent members of Congress and the U.S. presidency.

- In those inescapable instances when dispassionate minds, such as yours, discover that protection was mistakenly given to industries of the past that were for a time wrongly thought to be industries of "the future," will the shareholders and workers in those industries, whose prosperity has for some time been made possible only by the tariff protections that their industries received, gracefully accept the revised determination that they have all along been investing in, and working for, industries of the past and, therefore, must now lose their assets and jobs for the greater good? What will you tell these poor workers and bondholders?

- Finally, if an industry really does have such a promising future that even government bureaucrats can recognize this promise, why wouldn't private investors recognize the same promise and, hence, pour sufficient amounts of private financing into this industry? Isn't it one of the central functions of private capital markets to identify - and to shower with liquidity - upstart firms that are likely to be parts of industries of "the future"?

I'm eager to receive your replies.

---

9 March 2011

Friends,

235 years ago today witnessed the publication of Adam Smith's An Inquiry Into the Nature and Causes of the Wealth of Nation - and, hence, the launch of modern economics.

It is from the benevolence of my colleague and co-blogger Russ Roberts, and GMU student (and Cato Institute media man) Caleb Brown that we enjoy this first part of a two-part podcast on Smith's remarkable book: http://cafehayek.com/2011/03/3-9-1776.html