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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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27 February 2011

Mr. Lance B_________

Dear Mr. B_________:

You urge me "to take more serious the argument [that] free trade hurts Americans when our trade partners don't protect their workers as strong as us Americans do."

You go on to explain that foreign governments that fail to enforce the same high standards of environmental protection and workplace safety that Uncle Sam currently enforces provide for their producers "unfair cost advantages." Free trade with such countries, you assert, only harms Americans.

I have some questions for you. Suppose that a brilliant Chinese entrepreneur invents an automobile factory that converts house-fly droppings into all of the energy that the factory requires for its operations. Suppose further that this entrepreneur devises a process that causes house flies, in their natural search for food, to fly through a series of teeny-weeny turnstiles whose combined movements result in an incredibly productive assembly-line process for daily churning out high-quality, low-priced automobiles for export to America. This factory requires only three human workers; its chief workers are unpaid house flies whose instincts prompt them to set in motion mechanical processes that produce an incredible quantity of high-quality automobiles each day.

The small complement of human workers are paid and protected handsomely by the factory owner, but the bulk of the factory's labor is supplied by unpaid house flies, none of whom enjoys the slightest bit of legislatively enforced 'worker' protections.

Would Americans be harmed by trading freely with this Chinese factory?

Should Uncle Sam prevent Americans from buying these Chinese-made cars on grounds that most of the workers in this Chinese factory are paid less – and receive far fewer work-place protections – than do American workers?

The point of my questions is NOT to justify cruel exploitation of foreign workers; it is, rather, to challenge your contention that free trade with foreigners who produce at lower costs - both 'real' and government-induced - than their American rivals harms Americans. It does not.

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27 February 2011

Editor, The Huffington Post

Dear Editor:

Arguing for greater U.S. protectionism, Ian Fletcher asserts that the Great Britain of Adam Smith's day owed its historically unprecedented economic growth to protectionist policies ("In Praise of Mercantilism (or Why Economic History Isn't Boring)," Feb. 25). Forget that the only evidence offered for this thesis is that 17th- and 18th-century Great Britain (like nearly every other country on earth) was 'protected' by a welter of both mercantilist and natural restraints on international trade. Instead, focus on the fact that, if Mr. Fletcher's thesis is correct, the implications he draws from it are far too modest.

Great Britain's population in the mid-18th century was about 6.5 million. Arizona, Indiana, Massachusetts, and Tennessee today each have populations about this size; 12 other states have even larger populations. So if trade barriers around populations of at least 6.5 million people increase the economic prosperity of those people, Mr. Fletcher should propose that Congress allow citizens of populous states such as Arizona, California, and New Jersey each to erect tariff walls around their respective states. Such tariffs would, according to Mr. Fletcher's interpretation of the historical record, promote for Arizonans, Californians, New Jerseyites, and citizens of other populous states rates of economic growth and levels of economic prosperity higher than these citizens can achieve being burdened, as they are now, with the ability to trade freely with citizens of all 50 states.

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26 February 2011

Editor, The Huffington Post

Dear Editor:

Ian Fletcher - seeking respectable intellectual provenance for the protectionism that he champions - writes that mercantilism "was, in fact, a remarkably sophisticated attempt, given the limited conceptual apparatus of the time, to advance national economic development" ("In Praise of Mercantilism (or Why Economic History Isn't Boring)," Feb. 25).

He's half-correct. Mercantilism was indeed focused on "national economic development" - and in being so focused mercantilism gave no credence at all to the idea that a successful economy is one that increasingly better satisfies ordinary consumer demands. As UCLA economist William Allen wrote about mercantilist doctrines, "Economic well-being and betterment were not defined in terms of or measured by the satisfying of revealed community consumption preferences.... Selling - both at home and abroad - was something of a mercantilist end in itself."[William R. Allen, "Mercantilism," in J. Eatwell, M. Milgate, & P. Newman, The World of Economics (New York: W.W. Norton, 1987), pp. 440-448; the quotations in the letter are found on pages 441, 443, and 447.]

Not surprisingly, then, mercantilism was anything but "remarkably sophisticated." The great economic historian Jacob Viner called mercantilism "essentially a folk doctrine."[Jacob Viner, "Mercantilist Thought," in International Encyclopedia of the Social Sciences (New York: Macmillan, 1968), p. 436.] And William Allen properly notes about the mercantlists that "in neither the large nor the small, in neither the abstract nor the concrete did they provide an explanation of societal arrangement and procedure - a vital omission not merely illustrated by, but largely consisting in, their failure to provide an adequate price theory" [i.e., microeconomic theory].

Any modern-day economist who praises the sophistication of mercantilism is as uninformed as a modern-day geneticist who praises the sophistication of Lysenkoism.

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25 February 2011

Mr. Mark Herpel, Editor
dgcmagazine.com

Dear Mr. Herpel:

In your critical comments on Russ Roberts's Cafe Hayek post [http://cafehayek.com/2011/02/dont-follow-the-money.html] discussing the economics of buying local, you assert that Russ's example of the folly of trying to buy locally made automobiles is "idiotic" because "you can't get a car or a flat screen, or a laptop that is manufactured locally in any US city, [so] those are not considered local produced items anywhere. The concept of shopping locally means that 'like items' at reasonably similar prices should be more beneficial to buy the locally sourced item because it supports local business, that's your neighbor's business. In turn that business transaction will support you by employing your kid next summer based on his booming local business."

With respect, you commit several errors; here are two.

First, by your logic, if someone DOES set up an automobile factory in town and you buy all of your automobiles from this local producer, then "in turn that business transaction will support you by employing your kid next summer based on his booming local business." Sounds silly, doesn't it? That's because it IS silly. But it's no more silly than your example.

You can't escape this conclusion by saying that automobile producers are different than local producers (presumably because auto makers must produce and sell on massive scales to be profitable). After all, Wal-Mart and Costco (two firms that you single out as unsavory destroyers of local economies) succeed precisely because they, like Ford and Toyota, take advantage of large economies of scale. And the same is true for all non-local fisheries, farms, furniture makers, and other producers who profitably compete against local producers for consumers' dollars.

If spending less money at Wal-Mart and more money at neighbor Hank's Dry Goods store would improve the local economy despite Hank's inability to operate on a large scale, it's not clear why spending less money on Toyotas and more money on Hank's Honkin' Fine Locally Made New Cars wouldn't also improve the local economy.

Second, spending money at Wal-Mart is no less likely - by improving the profitability of the nearby Wal-Mart - to "support you by employing your kid next summer" than is spending money at Hank's Dry Goods store. And because worker productivity at Wal-Mart is likely higher than at Hank's Dry Goods store, Wal-Mart will pay your kid higher wages.

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25 February 2011

Editor, Huffington Post

Dear Editor:

Ian Fletcher's latest call for higher U.S. tariffs to "fix" our "trade imbalance" has too many flaws to list, let alone address, in a single letter ("Yes We Can! (Fix Our Trade Mess)"), Feb. 24). So I confine myself here to one of these flaws.

Mr. Fletcher writes as if the only way foreign governments can retaliate against higher U.S. tariffs is to increase subsidies to their export industries. He overlooks the most obvious means of retaliation: discriminatory tariff hikes.

So even if Mr. Fletcher is correct that foreign governments won't increase subsidies in response to higher U.S. tariffs, he's wrong to blithely assert that therefore higher U.S. tariffs won't spark a trade war, for trade wars can be (and have been) fought with escalating discriminatory tariffs.

For evidence, Mr. Fletcher can read Dartmouth trade economist Douglas Irwin's just-released book "Peddling Prosperity." After a careful review of the data, Prof. Irwin concludes that "Smoot-Hawley clearly inspired retaliatory moves against the United States, particularly - but not exclusively - by Canada. This retaliation had a significant effect in reducing U.S. exports." [Douglas A. Irwin, Peddling Prosperity: Smoot-Hawley and the Great Depression (Princeton: Princeton University Press, 2011), p. 183.]

Apparently unaware of history, Mr. Fletcher doesn't even consider the possibility - much less argue against the claim - that higher U.S. tariffs would be met by retaliatory tariff hikes abroad.

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24 February 2011

Editor, USA Today

Dear Editor:

Thurgood Marshall indeed deserves high praise for his work to rid the United States of Jim Crow legislation ("Thurgood Marshall blazed a path for civil rights," Feb. 18). But while on the U.S. Supreme Court, he turned a blind eye to an institution that disproportionately imprisons, disenfranchises, and discriminates against blacks: the war on drugs.

Interviewed in 1987 by Life, Justice Marshall said "If it's a dope case, I won't even read the petition. I ain't giving no break to no dope dealer." [http://findarticles.com/p/articles/mi_m1568/is_n9_v25/ai_15143266/pg_6/]

Quite apart from the question of whether or not drugs should be legalized, Justice Marshall's practice of automatically siding with the government in every drug case gave a free pass to government officials not only to violate the Constitution in their pursuit of alleged drug offenders, but also to act on whatever bigotry and prejudices they might have had as long as these officials could claim that their actions were part of the drug war.

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23 February 2011

Friends,

Here's my latest Xtranormal video - a 2 minute, 13 second video on Social Security:

http://www.xtranormal.com/watch/11226537/?listid=18148621

I'm aware that I've a great deal to learn to make these videos more entertaining.

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23 February 2011

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

Dear Editor:

William Kristol argues that "American principles" require Uncle Sam to intervene more vigorously - with force, if necessary - in the revolutions now sweeping through the Middle East ("Obama's moment in the Middle East - and at home," Feb. 23).

I disagree. While we should cheer for liberalization to grow and spread throughout the Middle East, American principles counsel our government NOT to interfere. One of these principles, after all, is that government (even our own) is an inherently dangerous agent best kept on as short a leash as possible. Another of these principles is that top-down social engineering is bound to have undesirable unintended consequences - a fact that is no less true when the social engineers are headquartered in the Pentagon and the State department as when they are headquartered in the Department of Health and Human Services and the Department of Education. The same government that Mr. Kristol so often, and rightly, criticizes for making a mess of matters here at home is unlikely to become a shining example of efficiency, rectitude, and wisdom in foreign lands.

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22 February 2011

Editor, Slate

Dear Editor:

I enjoyed Timothy Noah's review of my colleague Tyler Cowen's book "The Great Stagnation" ("Don't Worry, Be unhappy," Feb. 21). But Mr. Noah oversimplifies Cowen's thesis by suggesting that Cowen measures an innovation's merit by how much employment it creates.

It's true that Cowen notes that (as Mr. Noah reports with dismay) "the iPod has created fewer than 14,000 jobs in the U.S." But immediately after noting this fact, Cowen rightly observes that "we should APPLAUD the iPod for creating so much value with so little human labor" [original emphasis].

Mr. Noah is wrong to suppose that the value of innovations is found in the number of workers they employ. Consider agriculture: the many innovations in that arena over the years - such as mechanized harvesters, chemical fertilizers, and bio-engineering to increase crop yield - have dramatically REDUCED the number of people employed in agriculture. Would we be remotely as wealthy as we are today if it still took nine of us to feed every ten of us?

Economic growth is overwhelmingly the proximate result of innovations that allow fewer workers to produce more output - thereby releasing that most precious of all resources, human labor, for use in producing goods and services that earlier were too costly to produce.

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22 February 2011

Editor, USA Today

Dear Editor:

Budget director Jacob Lew assures us that Social Security is solvent because the Social Security "trust fund" contains lots of U.S. Treasury bonds "backed with the full faith and credit of the U.S. government - and are held in reserve for when revenue collected is not enough to pay the benefits due" ("Social Security isn't the problem," Feb. 22).

Yes, the Social Security "trust fund" is indeed filled with ample quantities of interest-bearing U.S. treasuries. But the same organization (Uncle Sam) that is the creditor on these treasuries is also the debtor on them. Ask: when Uncle Sam cashes in these treasuries to get funds to pay promised Social Security benefits, who pays Uncle Sam the principal and interest on these treasuries? Answer: Uncle Sam - who must, of course, raise taxes on flesh-and-blood people to get the dollars that he pays to himself so that he can then pay out promised Social Security benefits.

I.O.U.s written to one's self are not assets. They are, instead, pathetic reminders of one's gross financial irresponsibility.

Bernie Madoff is in jail - rightly so - for duping people with the same sort of financial flim-flammery that the White House budget director today peddles in your pages.

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22 February 2011

Editor, Foreign Policy

Dear Editor:

Gideon Rachman believes that "the normal rules about the mutual benefits of trade do not necessarily apply when one trading partner is practicing mercantilist or protectionist policies" ("Think Again: American Decline," Jan./Feb.).

He's correct, but not in the way that he thinks. Whereas Mr. Rachman believes that mercantilist and other protectionist policies help the countries that practice these policies and harm countries that trade freely, in fact the opposite is true.

By erecting tariffs that dampen competition, mercantilism encourages home producers to become unresponsive and uncreative. By issuing subsidies paid for with higher taxes, government debt, or distortionary monetary policies, mercantilism helps exporters only by inflicting larger damages on the nation's economy writ large. By turning the national government into a bazaar for the buying and selling of monopoly privileges, mercantilism deflects entrepreneurial energies away from building better mousetraps and into building politically advantageous political connections. And by raising prices in the home market, mercantilism makes consumers poorer as well as makes producers who rely heavily upon imported inputs less efficient.

So indeed, to the extent that Americans' trades with non-Americans are conditioned by foreign-governments' mercantilist policies, the gains from these trades are not mutual: they flow exclusively to Americans.

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21 February 2011

Friends,

Last September, George Mason's first Nobel laureate - Jim Buchanan - was feted with an evening of superb discussion at the new Mason Inn (here on GMU's Fairfax campus). The formal discussants included two other Nobelists (Lin Ostrom and Amartya Sen), as well as GMU Law-school Dean emeritus Henry Manne and my GMU Econ colleague Pete Boettke. Don't miss this fascinating intellectual treat! (Even my 13-year-old son, Thomas, attended!): http://mercatus.org/video/dr-james-buchanan-s-contributions-social-philosophy-and-political-economy

I thank the Mercatus Center at GMU, not only for helping the Atlas Foundation to sponsor this event, but also for taping it and making it available for wide distribution.

Don

P.S. I cannot resist using this opportunity to link to one of the most profound pieces I've ever read: a 1982 letter-to-the-editor (!) by Jim Buchanan; it is profound: http://www.econlib.org/library/Essays/LtrLbrty/bryRF1.html

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21 February 2011

Editor, Discovery News

Dear Editor:

You report that "A growing, more affluent population competing for ever scarcer resources could make for an 'unrecognizable' world by 2050, researchers warned at a major US science conference Sunday" ("Planet could be 'unrecognizable' by 2050, experts say," Feb. 21).

These scientists need a course in basic economics. Some of what they'll learn is that

- the supply of resources (as with human wealth) is not fixed; it increases over time in response to market forces as the quest for profits sparks innovations in resource exploration and recycling, as well as in finding less costly substitutes for resources currently in use;

- if the supply of some resource DOES fall, the price of that resource rises, causing people to use it more frugally as they switch to using resources whose supplies are more plentiful;

- if these scientists' prediction of consistently decreasing resource supplies over the next 40 years DOES come true, world incomes over the next 40 years will fall rather than (as these scientists worry) rise. Fewer resources mean less production, and less production means lower real per-capita income. Lower income, in turn, means that people over the next 40 years will reduce, not increase, their per-capita demands for goods and services.

Because any substance's status as a "resource" inherently reflects that substance's use and valuation in the economy, questions about resources' future supplies are not exclusively - or even mainly - ones of physics, mineralogy, or other physical sciences. They are, instead, chiefly questions of economics.