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# Comment on the Commentary of the Day

**by**

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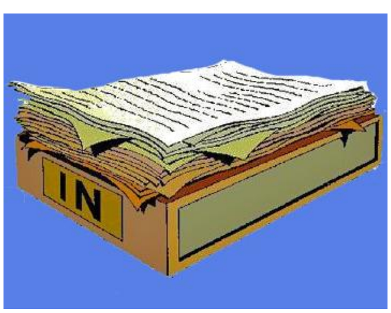


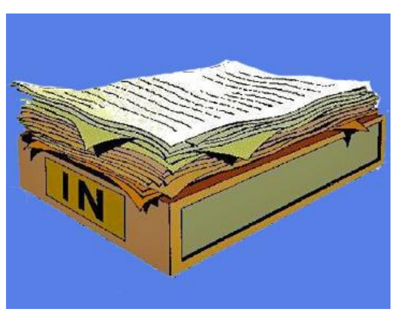


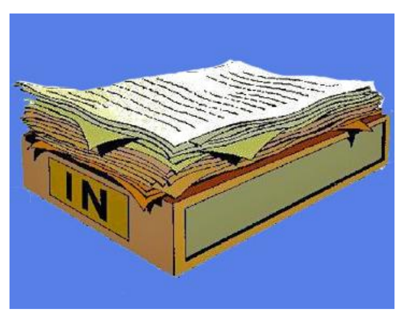

**Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

10 December 2012

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

Dear Editor:

According to Paul Krugman, "profits have surged as a share of national income, while wages and other labor compensation are down. The pie isn't growing the way it should - but capital is doing fine by grabbing an ever-larger slice, at labor's expense" ("Robots and Robber Barons," Dec. 10). Examination of less aggregated data, however, reveals the story to be more complicated than Mr. Krugman suggests.

After-tax profits as a share of price per unit of real gross value added of nonfinancial corporate business - a figure long calculated by the Bureau of Economic Analysis - averaged 8.0 percent annually during the presidency of Bill Clinton. But contrary to what your readers might suspect, during the presidency of George W. Bush this average annual profit figure FELL to 7.3 percent. For the first three years of Barack Obama's presidency, though, after-tax profits as a share of gross value added in the non-financial sector has soared, to 9.6 percent.

As for labor, its share of price per unit of real gross value added of nonfinancial corporate business averaged 65 percent annually during Bill Clinton's presidency. Ditto for George W. Bush's presidency. For the first three years of Mr. Obama's presidency matters are different: labor's share fell for 2009-2011 to an average annual rate of 62 percent.*

So capitalists - at least those outside of the financial sector - during 2001-2008 suffered LOWER after-tax rates of profit (on gross value added) than they did during either the Clinton years 1993-2000 or the Obama years 2009-2011. Workers, in contrast, fared equally well under presidents Clinton and Bush, while under Pres. Obama workers' average annual share of gross value added is lower than it has been for at least two decades.

Of course, the above proves nothing - except that one should avoid falling too quickly for Marxist-flavored class-warfare tales of the sort told by Mr. Krugman.

Sincerely,
Donald J. Boudreaux

Professor of Economics
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Fairfax, VA  22030

* All figures calculated from data at the U.S. Bureau of Economic Analysis, National Income and Product Accounts Tables, Table 1.15. Price, Costs, and Profit Per Unit of Real Gross Value Added of Nonfinancial Domestic Corporate Business: http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1  (After clicking on this link, click on "Domestic Product and Income," then scroll down and click on Table 1.15.)

11 December 2012

Editor, US News & World Report

Dear Editor:

Worried that sequestration will reduce the Pentagon's budget, Mackenzie Eaglen quotes Pentagon Comptroller Robert Hale's allegation that sequestration would result in a "less-capable, less-modern, less-ready force and [risk] creating a hollow military" ("Obama's fiscal cliff stubbornness dangerous for military," Dec. 7).

Please.

According to the International Institute for Strategic Studies,* Uncle Sam's annual military budget today is more than seven times (!) larger than that of the nation (China) with the globe's second-largest military budget.  And if China and all other nations, apart from the U.S., ranked today in the top ten according to absolute size of military budgets were to merge into one gigantic country, America's current military budget would still be much larger than that of our new mega-rival - larger than the combined budgets of these other nine countries by 52 percent (or $252 billion)!  Put differently, if sequestration does kick in to cut, as projected, $50 billion annually from the Pentagon's budget, five years of such cuts would be necessary to shrink the U.S. military budget to the size at which it would equal the SUM of the world's next nine largest military budgets.

When champions of fiscal prudence and market economies - such as Ms. Eaglen's employer, the American Enterprise Institute - frantically insist that modest belt-tightening by the colossus that is the Pentagon will bring calamity, "Progressives" and others who endorse active government involvement in the economy can be forgiven for likewise issuing over-the-top, hysterical predictions about the calamities that await us from modest belt-tightening by the likes of the Department of Education and the F.D.A.

Sincerely,
Donald J. Boudreaux

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

Dear Editor:

Carter Eskew finds inspiration for our troubled times in FDR's 1932 call for "bold, persistent experimentation" ("A country where millions feel stuck, or worse," Dec. 13). Mr. Eskew falls for rousing words used to peddle regrettable policies.

Amity Shlaes argues persuasively in her 2007 book, The Forgotten Man, that "Roosevelt's commitment to experimentation itself created fear"* - fear that, as economic historian Robert Higgs documents, greatly prolonged the depression.**

A chief reason for this sad result is that experimentation in the style of the New Deal actually chokes off the real deal. Substituting serially a handful of grandiose, one-size-fits-all schemes dreamed up by politicians - where no such scheme competes simultaneously with any other - forcibly eradicates hundreds, even thousands, of individual private experiments undertaken simultaneously, each launched and guided by someone with his or her own money at stake and prohibited from forcing unwilling others to play along with any particular experiment. Experimentation, therefore, of the sort that FDR championed was really neither so "bold" (as it was done with other people's money and lives) nor "persistent" (as, at any time, it displaced countless individual and simultaneous experiments with one gargantuan 'experiment.')

New Deal centralization put "Great" in the Great Depression. The last thing we need today is a repeat of that failed experiment.

Sincerely,
Donald J. Boudreaux

* Amity Shlaes, The Forgotten Man (New York: Harper, 2007), p. 9.

** Robert Higgs, "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War," The Independent Review, Spring 1997, vol. 1, pp. 561-590:
http://www.independent.org/pdf/tir/tir_01_4_higgs.pdf

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15 December 2012

Ms. Annie M__________
11th Grade
Southwest High School
Minneapolis, MN

Dear Annie:

Thanks very much for updating me on your teacher's reaction to the reason I offered for why mandated "equal pay for equal work" is a bad idea. I wondered what she'd say, and am delighted at your thoughtfulness in passing along to me her response.
....
Your teacher disagrees with you (and me) that it is nearly impossible for third parties - such as government officials, judges, and juries - to accurately assess just how closely the value of the job performed by worker Jane is to the value of the job performed by worker Joe. Her confidence in the discernment and wisdom of officials with no skin in the game to make accurate judgments about how each 'player' in the game is performing relative to other players is much higher than your and my confidence in such officials.

At the end of the day, it must be conceded that if officials with god-like powers of discernment - along with god-like abilities to remain unaffected by partisan politics and ideological prejudices - are in fact in charge, then such officials, being god-like, will always outperform real-world markets (which are only ever operated by us flawed mortals).

Your teacher's implicit theory, therefore, is correct: gods do outperform humans. Your teacher's premise, though, is mistaken: government officials, being human, are not gods.

I can't close this letter without objecting to your teacher's allegation that my earlier response to you is "the kind of thing believed by only followers of Ayn Rand." My point to you in my September e-mail has nothing to do with Ms. Rand; it is, instead, pretty standard economic reasoning. And that reasoning reflects a deep wisdom that's been around since long before Ms. Rand was born. The great Scottish philosopher David Hume, for example, observed in 1772 that "so great is the uncertainty of merit, both from its natural obscurity, and from the self-conceit of each individual, that no determinate rule of conduct would ever result from it."* While Hume here wasn't speaking about equal-pay legislation specifically - he was speaking about proposals to reward people according to their moral merit - his wisdom applies perfectly to equal-pay legislation. The 'true' market value of any worker's effort is bound to be obscure to even the smartest government official, and every worker is naturally prone (that is, has "self-conceit") to believe that he or she is worth more than he or she is paid.

Perhaps your teacher is correct that equal-pay legislation is more economically workable than I think it is, but she is very much mistaken to suggest that objections to giving government officials power of the sort that equal-pay legislation requires are not

part of a long and honorable intellectual tradition - a tradition to which some of history's deepest and most respected thinkers contributed.
.......

Sincerely,
Donald J. Boudreaux

* David Hume, Enquiries Concerning the Human Understanding and Concerning the Principles of Morals:
http://oll.libertyfund.org/index.php?option=com_staticxt&staticfile=advanced_search.php

UNIVERSITY of West Georgia