2012 ISSUE B>Quest BUSINESS QUEST 1996 - 2012

Comment on the Commentary of the Day

by

Donald J. Boudreaux

Chairman, Department of Economics

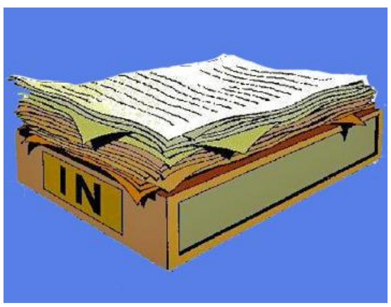
Martha and Nelson Getchell Chair for Free Market Capitalism

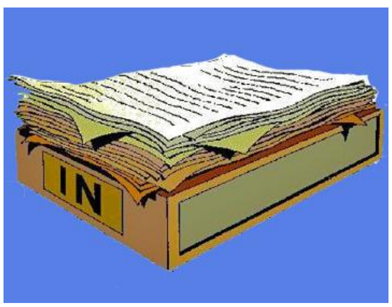
Mercatus Center

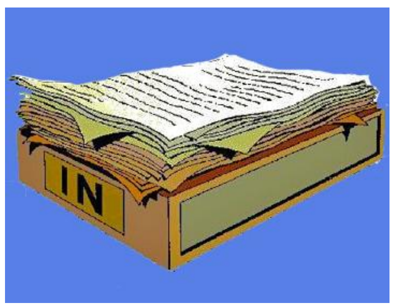
George Mason University

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 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.

18 December 2012

Mr. Tucker Lawson

Dear Mr. Lawson:

Thanks for your e-mail. You're the fifth person to write to me to ask my thoughts on General Electric CEO Jeffrey Immelt's recent praise of what he rightly calls "state-run communism" in China. Mr. Immelt did indeed say, about Beijing's still-heavy-handed direction of China's economy, that "what they're doing makes sense."

I believe that Mr. Immelt is mistaken. If state-run communism is a recipe for economic success, then mainland China under Chairman Mao would have produced paradise while the much more market-oriented societies of Taiwan and, especially, Hong Kong, would have languished in poverty. Also, what economic growth China has enjoyed of late has come only after - and, I would argue, only to the extent that - markets there have become genuinely liberalized.

While this beneficial liberalization is real and powerful, far too much of China's economy remains in the clutches of the state. A resulting confusion is that Mr. Immelt, like many others, mistakes the disproportionate fruits of China's liberalization as being instead the fruits of the still-rampant cronyism and central direction that infect that country.

This confusion isn't surprising coming from a business executive. Although there are notable exceptions, business people are a group who, contrary to popular myth, do not get from their daily experiences special insights into the workings of an overall economy, yet who are prone to mistake their acumen for business as being acumen for economics.

Adam Smith explained it well in a related context: "That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country was no part of their business."*

In other words, said Smith, business people - understanding their businesses but not the discipline of understanding the logic of the economy writ large - too easily mistake what is good for them for what is good for the economy. Mr. Immelt accurately sees that government policies bestowing special privileges on particular firms or industries are good for those firms or industries. But he incorrectly concludes - because, as Smith might say, 'it is no part of his business to know otherwise' - that such policies are therefore good for the economy.

Sincerely,
Donald J. Boudreaux
Professor of Economics
 and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

* Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations (Indianapolis: Liberty Fund, 1981 [1776]), Vol. 1, p. 434. This quotation appears in Book IV, Chapter 1:
http://tinyurl.com/7glg5xj

---

20 December 2012

Mr. Ian Fletcher
Coalition for a Prosperous America
700 12th St., NW
Washington, DC 20005

Dear Mr. Fletcher:

I received your e-mail asking me, along with 4,999 other people, each to contribute $10 to help your protectionist organization, the Coalition for a Prosperous America, raise $50,000. Understandably, you attempt in that mass e-mail to persuade us to make net investments in your organization by assuring us that our investments will make the CPA more productive and, hence, better able to achieve its goals.

Yet among the promises you offer in your fund-raising pitch is that the CPA will work to "eliminate the trade deficit" - that is, to prevent non-Americans as a group from making net investments in America.

Query: if the CPA benefits when non-CPAers invest in the CPA, why do you think that America SUFFERS when non-Americans invest in America? That is, can you explain why the productivity of you and your colleagues at the CPA will rise if I make a net investment in the CPA while the productivity of you, me, and other American workers will FALL if someone from Toronto or Tokyo or Timbuktu makes a net investment in America?

You'll receive my $10 upon my receipt of a satisfactory answer from you to my question.

Sincerely,
Donald J. Boudreaux

---

23 December 2012

Mr. Ian Fletcher
Coalition for a Prosperous America
700 12th St., NW
Washington, DC 20005

Dear Ian:

Thanks for your follow-up. You write "If you, rather than I, have a certain $100 bill, you're richer than you would be if you didn't have it, and I am poorer. This isn't even a matter of economics. It's just accounting."

You're correct: it's not economics. It's a bad example based on at least two faulty implicit assumptions. One is the assumption that the world's stock of resources or wealth is fixed. Another is that money is wealth (rather than claims on the goods and services that really ARE wealth).

Because trade is voluntary, trade is mutually beneficial and, hence, itself creates wealth. Both parties to any trade gain. How did I come by the $100 bill? Likely by producing $100 worth of value that would otherwise not have existed. Suppose I'm a tailor in Shanghai who makes a new shirt. If you give me the $100 in exchange for my shirt, I now have the $100 bill that you once owned. If you bought the shirt for consumption, an accountant might indeed say that you are $100 poorer, but clearly you are not worse off. (In utility terms, you are better off.) If, instead, you bought the shirt to resell at your haberdashery in Hoboken, then even an accountant would not reckon you to be made poorer by this exchange.

Only if you regard - which, I fear, you do - real wealth as being fixed in quantity or regard all consumption as being economically destructive can you conclude from your simple example that if I come by a $100 bill honestly (say, by persuading you to spend it on something that I sell to you) that my gain is your loss.

Sincerely,
Donald J. Boudreaux

---

26 December 2012

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

Dear Editor:

Phil Gramm rightly calls on Uncle Sam to stop subsidizing the wind-power industry ("The Multiple Distortions of Wind Subsidies," Dec. 26). Like all subsidies, these distort markets and make the country poorer - all in order to enrich a handful of politically influential businesses by shielding these privileged firms from the realities of the marketplace.

The late Jean-Francois Revel's characterization of the demands of African plutocrats for foreign aid from rich-country governments applies perfectly to the demands of private CEOs for domestic aid from rich-country governments: "Give us development in the form of subsidies, so as to spare us the effort of establishing an efficient relationship with reality."*

Sincerely,
Donald J. Boudreaux
Professor of Economics
and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

* Jean-Francois Revel, La connaissance inutile (Paris: Hachette Littérature, 1988), p. 99; quoted in Daniel Etounga-Manguelle, “Does Africa Need a Cultural Adjustment Program?”, which is chapter 6 in Culture Matters, Lawrence E. Harrison and Samuel P. Huntington, eds. (New York: Basic Books, 2000), p. 74.

UNIVERSITY of West Georgia