



Comment on the Commentary of the Day

by

Donald J. Boudreaux

Chairman, Department of Economics

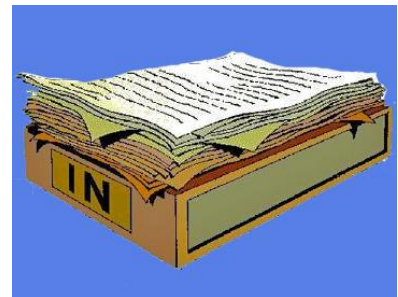
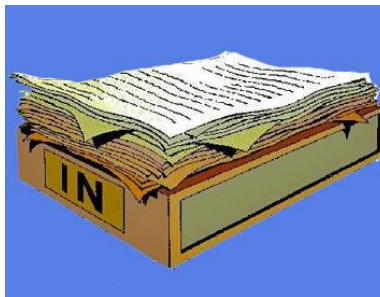
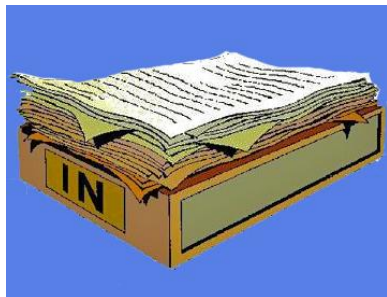
Martha and Nelson Getchell Chair for Free Market Capitalism

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.

3 January 2013

Ms. Julie Rovner
Morning Edition
National Public Radio

Dear Ms. Rovner:

In your interview yesterday with outgoing U.S. Congressman Pete Stark (D-CA), ("Pete Stark, Health Policy Warrior, Leaves A Long Legacy") you asked him what he'll miss most about being in Congress. He replied: "It's one of the areas in which you get up ... in the morning and look at the mirror ... and say, 'Hey, I'm going to do something today that's going to make life better for somebody.' And that's pretty neat.... When I was a banker I'd get up and say, 'Whose car am I going to repossess?' or 'Whose house am I going to foreclose?' and that didn't start you out on a very nice approach for the rest of the day."

If true, Mr. Stark was a lousy banker. Only unsuccessful bankers spend so much of their time repossessing cars and foreclosing houses. Had he been a better banker, Mr. Stark would today recall, not his disagreeable efforts to cut his losses by repossessing cars and foreclosing houses but, rather, his successes at earning profits by helping other people - successes such as directing capital to entrepreneurs who create new products and expand economic opportunities, or successes at arranging mutually agreeable mortgage terms that better enable responsible people to buy homes.

That Mr. Stark evidently failed at banking suggests that much of the good Mr. Stark today imagines that he did while in Congress very likely is no good at all. The reason is that these "good" deeds that Congressman Stark performed were funded with money forcibly taken from others rather than voluntarily paid or entrusted by others to him. Someone as apparently unable as Mr. Stark to help his fellow human beings when he deals with them voluntarily is hardly likely to succeed at helping people when he gets to confiscate their money and order them about.

Sincerely,
Donald J. Boudreaux

9 January 2013

Ms. Melissa Francis
Fox Business Network
New York, NY

Dear Ms. Francis:

In your interview yesterday with the Heritage Foundation's Curtis Dubay you expressed concern that Americans might soon be hit with a European-style value-added tax (VAT). Your concern is justified. As Adam Smith observed long ago, "There is no art which one government sooner learns of another than that of draining money from the pockets of the people."*

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]), p. 861. (Specifically, this quotation is from Book V, Chapter 2, part h.)

10 January 2013

Dear Mr. Edward Palmer:

In response to my Wall Street Journal essay today on the late Jim Buchanan you ask: "How can you say repayment of domestic debt is a net burden on a nation? Bond redeemers get what taxpayers give up. There is no NET cost." (By "domestic debt" I take you to mean government debt held by citizens of the same country as the taxpayers who pay to redeem the debt.)

Suppose that Sam taxes Smith today and then pays these tax proceeds to Jones who uses them to build a bridge. Sam, Smith, and Jones are Americans. Would you agree that, regardless of how worthwhile the bridge might be, the bridge is not free; it is built at a cost. Would you agree also that the cost of building this bridge is paid by Smith? I assume your answers to both questions are 'yes.'

Now change the scenario slightly. Suppose that Sam borrows money today from Williams, who lends his money voluntarily to Sam, expecting to be repaid with interest. Sam then pays these borrowed funds to Jones who uses them to build a bridge. Tomorrow Sam taxes Smith and uses the tax proceeds to repay principal and interest, in full, to Williams. Sam, Smith, Jones, and Williams are all Americans.

Do you agree that, in this second scenario as in the first, the bridge is built at a cost? (I assume so.) Who pays this cost? Clearly, neither Sam nor Jones pays it. That leaves only Williams (the lender) and Smith (the taxpayer). Williams advanced the funds for the bridge, but was repaid in full (plus interest) for his advance. Williams no more paid to build this bridge than does your bank pay for the car that you buy with funds borrowed from your bank. We're left only with Smith, whose taxes are raised to pay for the bridge.

So now the crucial questions: How does merely introducing an American creditor (Williams) change the fact that the American whose taxes are raised to pay for the bridge (Smith) still pays for the bridge? And how does the fact that Williams is an American who is repaid with Smith's taxes cancel out Smith's cost in such a way as to make it legitimate to say that the bridge cost Americans as a group nothing to build?

Unless and until you identify a means by which the act of deficit financing (as in scenario two) cancels out costs that clearly exist in the absence of such financing (as in scenario one) your case that internally held government debt represents no net cost to society seems to me to be very weak.

Sincerely,
Donald J. Boudreaux

14 January 2013

Mr. Steve Kroft
60 Minutes
CBS News
New York, NY

Dear Mr. Kroft:

In your segment last night "Are Robots Hurting Job Growth?" you conclude too quickly that today's stubbornly low rate of employment is the result of automation.

First, it's not clear that the pace of automation is today faster than it was during some important periods in the past. Are robots in 2013, for example, replacing factory workers faster than motorized farm equipment in 1913 replaced farmhands? Maybe; maybe not. The answer isn't obvious.

Second, given your recognition that 200-plus years of automation in the past haven't resulted in any long-term inability of a fast-expanding population of people to find high-paying jobs – and given also the reality that America's longest and deepest period of unemployment occurred 80 years ago, before the invention of the Internet, the microchip, and even the solid-state transistor – a more plausible, if more mundane, explanation of today's dreary jobs picture is found in economics and not in technology.

Some economists blame today's persistently high unemployment on inadequate government spending; others blame it on inadequate growth in the money supply; while others blame it on excessive government regulation and the fear of higher taxes. Whichever of these (or other) economic explanations is most plausible, adherents of each of them can point to the fact that net private domestic investment in the U.S. today is 56 percent lower than it was at its pre-crisis peak (during the first quarter of 2006), and 44 percent lower than it was for 2007, the last full year before the current crisis began.* This continuing sorry state of private investment is far more likely than is automation to be the cause of today's bleak employment situation.

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

* Data are available from the BEA on row six here:
<http://tinyurl.com/batb6hv>

