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Comment on the Commentary of the Day

by

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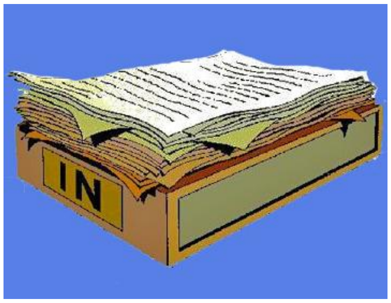

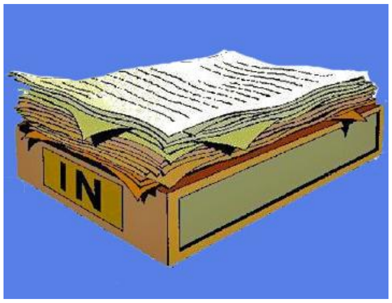

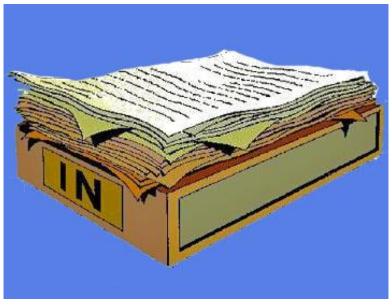

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

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17 December 2013

Mr. Rory Hawkins

Dear Mr. Hawkins:

Thanks for e-mailing in response to my objection to Paul Krugman's call for greater government efforts to reduce income inequality.

I agree that government enforces many policies that bestow undeserved riches on politically favored groups. But I disagree that (1) these cronyist policies "were for decades the dominant force in our economy," and (2) the problem with these policies is whatever increases in income inequality these policies might produce.

If cronyism had truly been the dominant force in our economy for decades, we would have stagnated long ago. The economic booms of the 1980s and 1990s would not have happened. Ordinary Americans today would have no smartphones, no GPS navigation, no digital photography, no e-books, no Amazon.com, no big-box retailers, no access to miracle drugs such as statins and PDE5 inhibitors.... This list can be extended much further.

Yet even if I here underestimate the extent of cronyism, the problem with cronyism isn't that it makes incomes less equal. The problem is that it stifles economic growth and, worse, violates the property and contract rights of ordinary people in order that government can transfer unearned treasure to politically powerful special interests. Any resulting rise in income inequality is merely a *symptom* of cronyism's evils. Efforts aimed directly at making incomes more equal, therefore, miss the mark. Such efforts not only penalize non-cronies, but by attacking merely a symptom of cronyism, these efforts divert attention from - and leave intact - the destructive cronyist policies themselves.

Were I a crony, that's a situation that I'd find to be most convenient.

Sincerely,
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and
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20 December 2013

Ms. Lindsey Murphy

Dear Ms. Murphy:

Thanks for your e-mail.

You remember accurately from your economics classes that markets are imperfect. You're mistaken, however, to allege that I "illegitimately assume a perfect market" when I argue that projects that require government funding (because they can't attract private funding) are unlikely to be economically worthwhile. I assume not that markets are perfect but, rather, that markets work better than governments at allocating capital to genuinely profitable uses.

Try the following game with your friends. It'll cost you some money, but the learning experience will be worthwhile. Here's the game:

Put three identical paper cups upside down on a countertop. As a friend (call her Jane) looks on, she sees you place a $10 bill beneath one of the cups. For a full ten minutes you will scramble the position of the three cups while Jane observes. If at the end of the ten minutes Jane incorrectly identifies the cup containing the money, she must pay you $1. But if she correctly identifies the $10 cup, she gets to keep the $10. Repeat this game fifteen times.

Then play the same game fifteen times with another friend (call him Tom). The only difference is that if Tom incorrectly identifies the $10 cup, he owes you nothing, but if he correctly identifies the $10 cup, he gets none of the money. He gets from you only a handshake and a hearty "Attaboy!"

Who do you think will, at the end of these 30 plays of this game, have the better record at identifying the cups containing the $10 bills? Tom or Jane? I'm confident that it will be Jane. I'm sure that it will be Jane not because I assume that her powers of observation are "perfect," or even that her powers of observation are superior to those of Tom. Instead, I'm confident that Jane will have the better record at identifying profitable opportunities (the $10 cups) because she has much stronger incentives than does Tom to do so.

The take-home, of course, is not that private investors are "perfect," but, rather, that they have stronger incentives than do politicians and government bureaucrats to correctly identify profit opportunities.

Sincerely,
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* http://cafehayek.com/2013/12/caterpillar-cronyism.html

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23 December 2013

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

Dear Editor:

Arguing that private businesses pay the full costs of higher minimum wages, Annie Lowrey concludes that "Unlike any other form of wealth redistribution, raising the minimum wage is basically cost-free to Washington" ("Supersize My Wage," Dec. 18). Ms. Lowrey's mistakenly formal notion of "cost" blinds her to reality.

The only difference between redistribution through minimum-wage legislation (and other regulatory diktats) and redistribution through tax-and-spend policies is that the dollar costs of the former, unlike the latter, are not recorded in government's budget. This accounting artifact, however, does not make minimum-wage legislation "basically cost-free." It makes it only off-budget.

By Ms. Lowrey's reasoning, *all* redistribution could be made "basically cost-free" simply by moving it off budget. For example, order federal agents to rob rich people at gun-point and then transfer the cash directly to poor people. Because the dollar value of these transfers would appear neither as tax revenues nor as expenses on Uncle Sam's budget, direct cash grants arranged by government would thus be rendered "cost-free" in exactly the same way that forced transfers of money from business owners to minimum-wage workers are now, by Ms. Lowrey's reckoning, "cost-free." Yet clearly, the true costs of government programs are not eliminated by mere changes in accounting conventions.

One expects better reporting from the *New York Times.*

Sincerely,
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26 December 2013

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

Dear Editor:

Reviewer Roger Lowenstein notes uncritically that when "Wrong" author Richard Grossman "writes about the Irish potato famine of the 1840s, he tells us ... about the slavish devotion to laissez-faire that intensified its effects" ("Book Review: 'Wrong,' by Richard S. Grossman," Dec. 26). Wrong. Instead, what's notable is Mr. Grossman's (and Mr. Lowenstein's) slavish devotion to an account of history that is malarkey.

As explained by historian Stephen Davies,* after defeating James II in 1690, protestants subjected Irish Catholics to harsh restrictions on land ownership and leasing. Most of Ireland’s people were thus forced to farm plots of land that were inefficiently small and on which they had no incentives to make long-term improvements. As a consequence, Irish agricultural productivity stagnated, and, in turn, the high-yield, highly nutritious, and labor-intensive potato became the dominant crop. In combination with interventions that obstructed Catholics from engaging in modern commercial activities - interventions that kept large numbers of Irish practicing subsistence agriculture well into the 19th century - this over-dependence on the potato spelled doom when in 1845 that crop became infected with the fungus Phytophthora infestans.

To make matters worse, Britain's high-tariff "corn laws" discouraged the importation of grains that would have lessened the starvation. Indeed, one of Britain's most famous moves *toward* laissez faire - the 1846 repeal of the corn laws - was partly a response to the famine in Ireland.

Had laissez faire in fact reigned in Ireland in the mid-19th century, the potato famine almost certainly would never had happened.

Sincerely,
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* http://www.fee.org/the_freeman/detail/lessons-of-history-the-great-irish-famine#axzz2EDTzMUwE

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