2014 B>Quest BUSINESS QUEST 1996 - 2014

Comment on the Commentary of the Day

by

Donald J. Boudreaux

Chairman, Department of Economics

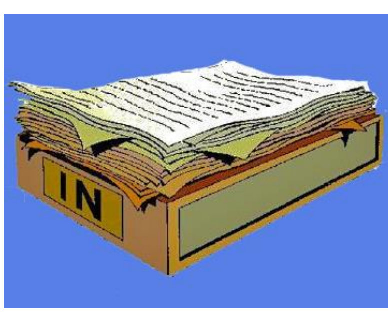
Martha and Nelson Getchell Chair for Free Market Capitalism

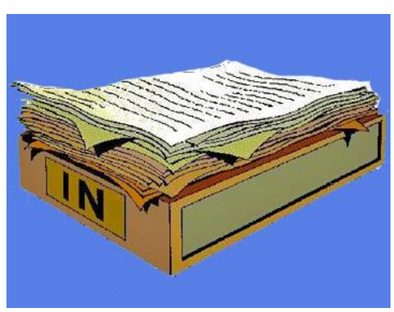
Mercatus Center

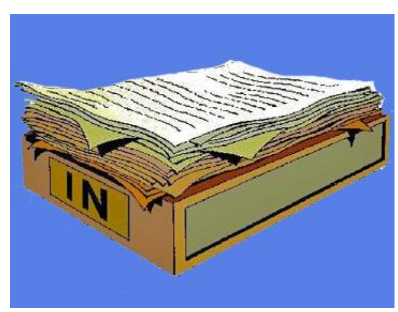
George Mason University

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.

12 September 2014

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

Dear Editor:

Peter Thiel notes that, despite its being "considered both the ideal and the default state in Economics 101," economists' theory of perfect competition doesn't remotely describe the realities of actual capitalist rivalry ("Competition Is for Losers," Sept. 13). He's right.

As explained by the great economist Harold Demsetz, the theory of perfect competition is not a theory of competition at all. Instead, it's a theory of the formation of prices under conditions of extreme decentralization.* Yet by calling it a theory *of* competition (*perfect*, no less!), careless economists - as well as antitrust officials - naively mistook this theory meant to describe one thing (price formation) as being a theory meant to describe something altogether different (market competition). And so it's as unsurprising as it is regrettable that when the actual process of real-world market competition reveals itself to be nothing like anything found in the theory of perfect competition, far too many economists and bureaucrats accuse real-world markets of being infected with monopoly power.

In fact, as Mr. Thiel recognizes - and as Austrian economists such as Ludwig von Mises, Joseph Schumpeter, F.A. Hayek, and Israel Kirzner have always insisted - entrepreneurs who innovate in ways that create unique market niches that yield temporary above-normal profits are not *really* monopolists at all. Instead, they are the essential drivers of genuine, dynamic, and consumer-friendly competition.

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

* Harold Demsetz, *Economic, Legal, and Political Dimensions of Competition: The De Vries Lectures in Economics* (Amsterdam: Elsevier Science, 1982).

16 September 2014

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

Dear Editor:

John Teevan rightly rejects the claim that slavery is a capitalist institution (Letters, Sept. 16). Slavery began soon after the invention of agriculture and disappeared only with the emergence of modern capitalism. Moreover, widespread opposition to slavery arose first in those societies that first became capitalist.

The forces endemic to capitalism that undermine slavery are many. Among these is entrepreneurial innovation. This innovation broadens and intensifies competition for workers. Specifically, new industries can get the workers they need, on the most favorable terms, only by competing them away from older, established industries. Even if each owner of every established farm and firm wants to enslave his workers, market entrepreneurs resist such an obstacle to the manpower necessary to transform their entrepreneurial visions into productive realities.

In short, innovative entrepreneurs - defining agents of capitalism - have no use for slavery.

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

19 September 2014

Mr. Fred Hochberg, Chairman and President
United States Export-Import Bank

Dear Mr. Hochberg:

I seldom agree with any of your attempts to justify the existence of your government agency. The Export-Import Bank is, after all, a bureaucracy that diverts private-sector resources into artificially expanded operations and bloated revenues for politically powerful corporations - and all on the ridiculous superstition that exports are uniquely good for the domestic economy.

Yet yesterday you spoke truthfully when you said that "[b]usinesses don't pursue overseas sales, invest in their operations, or hire new employees on a month-to-month basis."*

Of course, what this reality tells you is that Congress should reauthorize your agency for a term longer than a few months. What this reality tells me, in contrast, is that U.S. exporters that now depend upon your political agency for some of their sales should immediately and forever be denied that dependence. Private capital markets are open for business 24/7/365 and never need reauthorization from politicians. So if you're really interested in ensuring that Boeing and other U.S. exporters enjoy access to financing that is never subject to political sun-setting, please join those of us who call for the Ex-Im Bank to be straightaway and permanently shut down.

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

* http://www.exim.gov/newsandevents/releases/2014/Statement-of-Fred-P-Hochberg-on-ExIms-Extension.cfm

21 September 2014

Editor, *The Financial Times*

Sir:

Joseph Stiglitz concludes that raising the minimum wage in the U.S. will increase American workers' bargaining power ("Pay pressure," Sept. 19). Mr Stiglitz reaches this conclusion by arguing that American workers' pay is now kept low in part by "asymmetric globalization" - a phenomenon mentioned but not defined in your pages, but which Mr Stiglitz said last year in the*New York Times* involves the ability of "mobile capital" to demand "that workers make wage concessions."*

Mr Stiglitz's argument for raising the minimum wage is flawed.

The high global mobility of today's capital that he fingers as a culprit causing stagnant wages will not in the least be reduced by a hike in the minimum wage. Instead, such a hike will only cause capital to more intently use this mobility to leave America in search of more foreign workers - workers who would be made even more attractive to mobile capital if Uncle Sam follows Mr Stiglitz's advice to raise the minimum wage.

In short, by the logic of Mr Stiglitz's own premises, a higher minimum wage in the U.S. would *weaken* rather than strengthen American workers' bargaining power.

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

* http://opinionator.blogs.nytimes.com/2013/10/13/inequality-is-a-choice/

UNIVERSITY of West Georgia