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Comment on the Commentary of the Day

by

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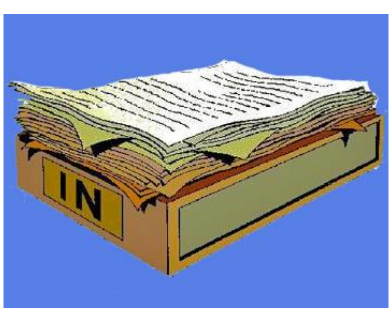

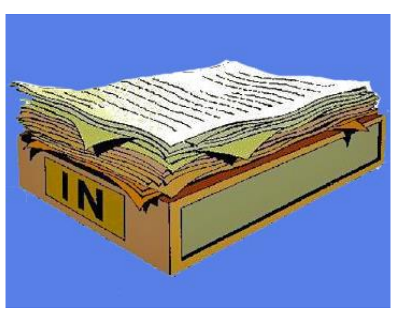

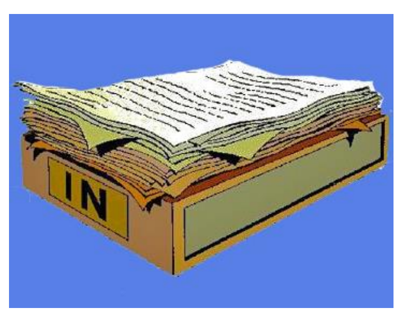

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

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19 October 2014

Dear Mr. Sloan

Thanks for writing.

You ask if my support of free trade is "too simplistic." Aren't there "conditional situations and details" that I overlook when I oppose protectionist arguments? Fair questions. My answer, though, is that while I agree that reality is unavoidably more complex than are any human accounts of it, the unconditional case against protectionism is as sound as is, say, the unconditional case against armed robbery.

Suppose your next-door neighbor grows tomatoes and offers to sell some to you. You reject his offer and instead buy tomatoes from a seller who lives further down the street. Your next-door neighbor's prices might be higher than are those charged by the more-distant seller or the quality of his tomatoes not quite to your liking. Whatever the reasons, you don't buy tomatoes from your neighbor.

Now suppose that your neighbor responds by pointing a gun at your head to demand that you hand over to him a dollar for every pound of tomatoes that you buy from the seller down the street. Would you think that your neighbor's actions are justified? Of course not.

But what if your neighbor tells you, as he stares at you down the barrel of his gun, that he really needs the extra income that he'll get if you buy his tomatoes? Or what if your neighbor insists that the seller down the street is selling tomatoes at prices that are unfairly low? ("His uncle subsidizes his tomato growing!") Or suppose your neighbor asserts that he's a more reliable supplier of tomatoes for the neighborhood than is the seller down the street? Would any of these "situations and details" justify your neighbor threatening violence against you if you don't pay to him a penalty whenever you buy tomatoes from someone else? Of course not - and this conclusion wouldn't change if your neighbor outsourced to a criminal gang the task of collecting from you the fines your neighbor demands for your patronizing another seller.

Protectionism of the sort practiced by sovereign governments is similarly unconditionally unjustified, for it differs in no relevant ways from the armed robbery described above.

Sincerely,
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and
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21 October 2014

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

Dear Editor:

Paul Krugman's allegation that Amazon has harmful monopsony power misses many a mark, not least of which is Mr. Krugman's mistaken history of John. D. Rockefeller's Standard Oil as a monopoly that "had too much power" ("Amazon's Monopsony Is Not O.K.," Oct. 20).

Serious students of Standard's practices during the late 19th and early 20th centuries understand that complaints against that company came overwhelmingly from other refiners who couldn't match Standard's great efficiencies. Yet no complaints came from consumers. Standard made *them* overwhelmingly better off - which is compelling evidence that Standard did not have monopoly power.

Here's the noted antitrust historian D.T. Armentano: "Standard Oil's efficiency made the company extremely successful: it kept its costs low and was able to sell more and more of its refined product, usually at a lower and lower price, in the open marketplace. Prices for kerosene [Standard's principal output] fell from 30 cents a gallon in 1869 to 9 cents in 1880, 7.4 cents in 1890, and 5.9 cents in 1897. Most important, this feat was accomplished in a market open to competitors, the number and organizational size of which increased greatly after 1890. Indeed, competitors grew so quickly in the years preceding the federal antitrust case that Standard's market share in petroleum refining declined from roughly 85 percent in 1890 to 64 percent in 1911. In 1911, at least 147 refining companies were competing with Standard, including such large firms as Gulf, Texaco, Union, Pure, Associated Oil and Gas, and Shell."*

Nobel laureate economists should avoid parroting potted economic histories.

Sincerely,
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* D.T. Armentano, *Antitrust Policy* (Washington, DC: Cato Institute, 1986), pp. 24-25.

23 October 2014

Dear Mr. Sloan

Thanks for your latest note. You remember correctly that I agree that Pres. Obama's "You didn't build that!" quip referred to infrastructure and other inputs – admittedly produced by others – that each entrepreneur relies on. You're mistaken, however, to insist that "because government makes businesses' profits possible, even the most innovative" entrepreneurs and investors "earn only a portion of their profits."

You confuse possibilities with actualities. Infrastructure and other inputs do not turn themselves into valuable outputs. That task requires entrepreneurial creativity, risk-taking, and effort. The very existence of huge profits earned in markets suffused with infrastructure and other inputs implies that entrepreneurs who earn these huge profits produce something rare and unusually valuable - something that the vast majority of people, despite having the same access as do successful entrepreneurs to infrastructure and other inputs, do not produce.

In short, the outputs created by entrepreneurs would not otherwise have been produced. Therefore, the profits of these entrepreneurs reflect the *additional* value to the economy of these outputs. This is additional market value that, despite the use of infrastructure and other inputs, is created only through the actions of successful entrepreneurs. These entrepreneurs, and they alone, are responsible for making actual that additional value which, without their efforts, would remain only an unrealized - indeed, *unnoticed* - potential.

This reality does not itself argue against taxation. Infrastructure, like other inputs, must be paid for, and taxation is one way to pay for it. But this reality *does* mean that it's mistaken both to attribute to government a prime and uniquely important role in the creation of entrepreneurial profits and to suppose that government, by virtue of a politician quipping fatuously to entrepreneurs "You didn't build that!," becomes entitled to an open-ended claim on these profits.

Sincerely,
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24 October 2014

Dear Mr. Sloan:

I appreciate your correspondence. Thank you for it.

You ask if I agree that, because successful entrepreneurs "such as [Jeff] Bezos … benefit disproportionately" from government-supplied infrastructure, these entrepreneurs should be taxed at rates higher than those levied on "regular people."

I don't agree. My reasons are many, not the least of which is that I doubt that successful entrepreneurs benefit disproportionately from government-supplied infrastructure. Looking at the non-farm U.S. economy over the years 1948-2001, the Yale economist William Nordhaus calculates that successful innovators capture only about two percent of the value to society of their innovations. The other 98 percent of the value of these innovations is, as Nordhaus says, "passed on to consumers rather than captured by producers."*

If this calculation is even only remotely accurate, then three points about taxes suggest themselves: (1) it's unwise to raise taxes on - that is, to discourage - activities that generate such huge net benefits for society; (2) successful entrepreneurs already, through market competition, contribute to society nearly all (98 percent) of the value of their successful innovations; and (3) those who enjoy disproportionate benefits from whatever entrepreneurial innovations are made possible by government-supplied infrastructure are, thus, arguably the general public rather than the successful entrepreneurs.

It's true that Jeff Bezos would be less wealthy today if there were no roads, airports, and other infrastructure to enable Amazon to serve consumers. But it's also true that consumers would be less wealthy today not only if there were no roads, airports, and other infrastructure to enable Amazon to serve consumers, but also if Jeff Bezos had instead chosen to become, say, a poet or a civil servant rather than a entrepreneur. Mr. Bezos had to take positive, risky steps to gain his increased wealth; in contrast, consumers did nothing for their increased wealth other than enjoy it when Mr. Bezos offered it to them.

Sincerely,
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* William D. Nordhaus, "Schumpeterian Profits in the American Economy: Theory and Measurement" (April 2004):
http://www.nber.org/papers/w10433

28 October 2014

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

Dear Editor:

Worried that his subjects are getting too good a deal on sugar grown in Mexico - and, hence, that his privileged cronies who grow sugar in the U.S. might have to compete more vigorously - Uncle Sam is pressuring Mexico's government to force sugar growers there to serve American consumers less agreeably ("U.S. Imposes New Sugar Tariffs, but Pact May Negate Them," Oct. 28). Let's re-write a paragraph of your report to better reflect this reality:

"The draft agreement between ~~the U.S.~~ A SMALL NUMBER OF U.S. POLITICAL OPERATIVES and THEIR COUNTERPARTS IN Mexico contains ~~provisions~~ DIKTATS to ensure there isn't a ~~flood of Mexican sugar~~FLOURISHING OF VOLUNTARY SUGAR PURCHASES BY AMERICANS that could cause price declines that would~~be~~ MAKE THE VAST MAJORITY OF AMERICANS MORE PROSPEROUS ~~harmful to the U.S. industry and its farmers~~, the HOSTILE-TO-Commerce Department said. That includes preventing ~~imports from being concentrated during certain times of the year~~ AMERICANS FROM BUYING MEXICAN SUGAR AT WHATEVER TIMES OF YEAR THEY WISH, limiting the amount of refined sugar that ~~can enter the U.S. market~~ AMERICANS CAN CHOOSE TO PURCHASE FROM MEXICO, and ~~establishing minimum prices for Mexican sugar producers~~FORCING AMERICANS WHO DO MANAGE TO BUY MEXICAN SUGAR TO PAY MORE MONEY FOR IT."

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