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Comment on the Commentary of the Day

by

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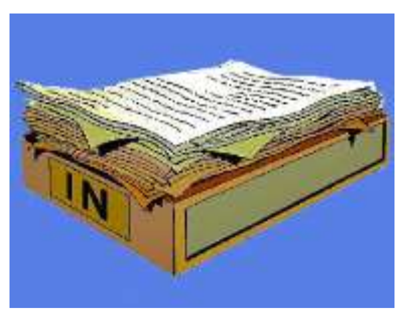

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

25 August 2016

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

Dear Editor:

Today's "Notable & Quotable" justifiably scoffs at the wildly mistaken prediction, made in 1991, that the introduction that year of an income tax in Connecticut would eliminate what then-Gov. Lowell Weicker called that state's "orgies of spending" - spending that, between the introduction of the tax and 2014, grew 71 percent faster than inflation.

This train (wreck) of fiscal events raises a question: Will Paul Krugman and other "Progressives" who routinely ridicule as foolish all claims that cuts in marginal tax rates can be fiscally meritorious now be equally skeptical of the fiscal merits of *raising*tax rates?

I doubt it. But it will be interesting to behold the verbal pirouettes performed by the likes of Mr. Krugman & Co. as they try to explain that cutting taxes is by nature fiscally reckless while raising taxes is by nature fiscally prudent.

Sincerely,
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26 August 2016

Noel King, Reporter
Planet Money

Ms. King:

I enjoyed your report today on the Trade Adjustment Assistance Program.* Here are three questions about this program that you might raise in future reports.

First, because particular jobs are destroyed in America mostly by improvements in technology and by changes in consumer demands having nothing to do with international trade, what ethical or economic reasons justify government's policy of giving special, favorable treatment to the relatively few workers who lose jobs to imports?

Second, if, as your report hints, trade-adjustment assistance isn't very effective, then even if there is indeed something special about job destruction caused by imports, why should taxpayers be forced to continue to pay for such ineffective assistance?

Third, if trade-adjustment assistance *is* effective, then it subsidizes employment in industries that compete with, or that are likely to compete with, imports. This subsidy draws too many workers and other resources into import-competing industries. What is the ethical or economic justification for forcing taxpayers to subsidize the artificial expansion of import-competing industries at the expense of other domestic industries - especially given that this expansion, by artificially creating more domestic exposure to imports, enhances the false appearance that international trade is a threat to the American economy?

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27 August 2016

Editor, *The Economist*

Sir or Madam:

With "Two out of three ain't bad" (August 27) you complete your series on six big ideas in economics - a series on, as you write in your July 21st introduction, "[w]hat economists can learn from the discipline's seminal papers." The series is useful. I fear, though, that your choice of ideas grievously if inadvertently diminishes the perceived importance of even bigger economics ideas - ideas that perhaps aren't as clever as George Akerlof's 'lemons' model or as politically convenient as the Keynesian multiplier, but that form the foundation of all sound economics.

These foundational ideas include F.A. Hayek's explanation that market prices convey to each market participant the specific information she needs to coordinate her activities with the literally billions of other economic agents across the globe.* Without these prices there are no economies for which Hyman Minsky's analysis or the Mundell-Fleming trilemma are even potentially relevant. And the idea that is the bedrock of all economics is the understanding that complex economic order emerges spontaneously, without central design or guidance, when private property is secure and markets are at least reasonably free - when, in short, there reigns what Adam Smith called the "the obvious and simple system of natural liberty."**

Too many economists today, busy mastering mathematical technique or striving to make their work relevant for current holders of political power, lamentably never learn - much less master - these and other foundational ideas. But no amount of mastery of the idea of the likes of Nash equilibrium or of the Stolper-Samuelson theorem is worth a damn without a mastery of these older, less sexy, yet foundational ideas.

Sincerely,
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* F.A. Hayek, "The Use of Knowledge in Society," *American Economic Review* (September 1945):
http://www.econlib.org/library/Essays/hykKnw1.html

** Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776), Book IV, Chapter 9, paragraph 51:
http://www.econlib.org/library/Smith/smWN19.html#IV.9.51

29 August 2016

Mr. Sean Horvath

Mr. Horvath:

Thanks for your e-mail and your challenge for me to list my own "Big 6 modern ideas in economics" that deserve more of economists' attention today. You don't specify what you mean by modern, so I'll interpret you to mean 'within the past 75 years.' Here's my list, in increasing order of importance. (I cheat by having two related ideas tied for #6 and two related ideas tied for #2.)

6. (i) Milton Friedman's and Anna Schwartz's demonstration that the Federal Reserve's incompetence led to a much greater than necessary contraction of the economy in the early 1930s. (See pages 299-419 of their 1963 book, *Monetary History of the United States: 1867-1960*.) (ii) Robert Higgs's theory of regime uncertainty. (See Higgs's 1997 article "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed After the War.")

5. Armen Alchian's proposed reformulation of production and cost theory - a reformulation that would be far more explanatory and much less misleading than are the conventional cost curves still taught today. (See his 1959 article "Costs and Outputs.")

4. James Buchanan's, Gordon Tullock's, Mancur Olson's, Anthony Downs's (and others) public-choice analysis. Despite Jim winning the 1986 Nobel Prize, to this day it is considered to be scientifically acceptable for economists to treat government officials as not responding to incentives in the same way that individuals in the private sector are known to respond to incentives. (See Buchanan's and Tullock's 1962 book, *The Calculus of Consent*; Olson's 1965 book, *The Logic of Collective Action*; and Downs's 1957 book, *An Economic Theory of Democracy*.)

3. Ronald Coase's explanation that externalities necessarily are caused by the actions *both* of the party who is identified as 'causing' the harm and of the party who suffers the harm. (See his 1960 article "The Problem of Social Cost.")

2. (i) Julian Simon's demonstration that human creativity is the ultimate resource. (See his 1996 book, *The Ultimate Resource 2*.) (ii) Deirdre McCloskey's explanation that modern prosperity is largely the result of market-tested innovation unleashed by greater dignity accorded to bourgeois pursuits. (See her 2010 volume, Bourgeois Dignity.)

1. F. A. Hayek's 1945 explanation that market prices convey the information necessary for each of multitudes of economic actors to coordinate his or her choices with the actions and choices of others. (See his 1945 article "The Use of Knowledge in Society.")

Sincerely,
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30 August 2016

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

Dear Editor:

Hunter Blair opposes cutting corporate income taxes because, as he puts it, "Corporate income-tax cuts are supposed to boost wages by incentivizing investment in plants and equipment, which boosts economy-wide productivity. But for most of the past few decades, increases in economy-wide productivity have not translated smoothly into wage increases for the vast majority of workers. Instead, the fruits of this productivity growth have disproportionately accrued to workers at the very top of the salary scale" (Letters, August 31).

Forget that, as Liya Palagashvili and I argued in your pages not long ago,* it is a myth that worker pay hasn't kept pace with increasing worker productivity. If it *is* true that the increased worker productivity brought about by more investment has not yet been, and will continue not to be, matched by increased worker pay, then Mr. Blair should quit his job at the Economic Policy Institute and launch his own business to take profitable advantage of the legions of underpaid workers who he so confidently insists populate the land. If he's correct, he'll make a mint! If, however, Mr. Blair refuses to exploit in some form or fashion, using his own money, this profit opportunity that he himself avers is real, then he has no business advising government to continue to tax away huge chunks of money from *other* people - other people who, unlike Mr. Blair, put their own skin in the market.

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* http://www.wsj.com/articles/SB10001424052702304026804579411300931262562

Donald Boudreaux and Liya Palagashvili: The Myth of the ...
www.wsj.com

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1 September 2016

Ms. Katie Montgomery

Ms. Montgomery:

I regret that you're offended by my claim that "Only by thinking at the margin can we correctly understand why the wages of life-saving first-responders are lower than are the wages of NFL players and of Hollywood starlets *and why this fact is a good thing for society.*"* You allege that "Real people know it's wrong and dangerous that men playing games get paid so much more than men and women who save lives and educate our children."

I agree that most people are troubled that the likes of Tom Brady and Jennifer Lawrence earn far higher pay than does any firefighter or school teacher. But this reality reflects not people's correct understanding of a failing economy but people's incorrect understanding of a successful economy. It reflects also a failure of economists to better teach basic economics to the general public. So let me ask: would you prefer to live in a world in which the number of people who can skillfully fight fires and teach children is large but the number of people who can skillfully play sports and act is very tiny, or in a world in which the number of people who can skillfully fight fires and teach children is very tiny but the number of people who can skillfully play sports and act is large?

I'm sure that you'd much prefer to live in a world in which skills at fighting fires and teaching children are more abundant than are skills at playing sports and acting. Precisely because saving lives and teaching children are indeed far more important *on the whole* than is entertainment, we are extraordinarily fortunate that the numbers of our fellow human beings who possess the skills and willingness to save lives and to teach children are much greater than the numbers who can skillfully play sports or act.

The lower pay of fire fighters and school teachers simply reflects the happy reality that we're blessed with a much larger supply of superb first-responders and educators than we are of superb jocks and thespians. Were it the other way around, then while we'd be better entertained with more top-flight sporting events and movies, all but the richest amongst us would suffer significantly greater risks of being unable to educate our children and of dying in house fires and from other mishaps.

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* http://cafehayek.com/2016/08/quotation-of-the-day-1821.html

9 September 2016

Editor, *Washington Post*

Editor:

In “5 Myths about unions” (Sept. 2), Moshe Marvit argues that labor unions help all workers, not just labor-union members. To support this claim, he writes that “Groups like the Service Employees International Union have spend millions in a fight to raise the minimum wage to $15 an hour, even though they are unlikely to get an increase in membership in the short term. Call it the tide that lifts all boats.”

Mr. Marvit’s analysis is superficial. Had he analyzed more deeply he would have discovered that low-skilled, lower-paid workers often are substitutes for higher-skilled, higher-paid workers (such as SEIU members). Firms often find that certain jobs can be done at lower costs with larger numbers of low-skilled, lower-wage workers than with smaller numbers of higher-skilled, higher-wage workers. Because raising the minimum wage does not increase low-skilled workers’ skills but *does* increase firms’ costs of using low-skilled workers relative to the costs of using smaller numbers of higher-skilled workers, lobbying for minimum-wage hikes is a means that labor unions have long used - and use still - to artificially eliminate the competition that low-skilled, lower-wage workers pose both today and tomorrow to these unions’ relatively well-paid members.

Suppose that George Will, E.J. Dionne, Maureen Dowd, David Brooks, and other prominent newspaper writers organized to lobby the government to force all newspapers, magazines, websites, and other publications to pay even the greenest of writers wages much closer to those paid to highly skilled writers such as Will, Dionne, Dowd, and Brooks. Would Mr. Marvit interpret this effort as a magnanimous gesture by these high-income writers to help their lower-paid comrades, such as Mr. Marvit? Or would Mr. Marvit see this move for what it really would be: a devious effort to eliminate many of these high-paid writers' competitors?

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