PART II

ECONOMIC ISSUES

Why Economists Are Not Popular

One of the many reasons why economists are unpopular is that they keep reminding people that things have costs, that there is no free lunch. People already know that—but they like to forget it when there is something they have their hearts set on.

Economists don't have to say anything when people are buying things at a shopping mall or at an automobile dealership. The price tags convey the situation in unmistakable terms. It is when people are voting for nice-sounding things which politicians have dreamed up that economists are likely to point out that the costs ignored by politicians are going to have to be paid, one way or another—and that you have to weigh those costs against whatever benefits you expect.

Who wants to put on green eye shades and start adding up the numbers when someone grandly proclaims, "access to health care for all" or "clean air" or "saving the environment"? Economists are strictly party-poopers at times like these. They are often gate crashers too, since usually nobody asked them how much these things would cost or even thought about these issues in such terms.

Some of the more persistent or insensitive economists may even raise questions about the goals themselves. How much health care at the taxpayers' expense? In Britain, a 12-year-old girl was given breast implants. That much health care?

Meanwhile, Britain's skyrocketing medical costs of taking

care of things that people would never have spent their own money to take care of forced cutbacks and delays in more urgently needed medical treatments. One woman's cancer operation was postponed so many times by the British health service that, by the time the system could take her, the disease was now too far gone for medical help—and she died.

Economists could have told anyone in advance that making things "free" causes excessive use by some, leaving less for others with more urgent needs that have to remain unsatisfied. Rent control, for example, has led to more housing being occupied by some, who would not have paid the market price for as large an apartment as they live in, while others cannot find any housing that they can afford in the city, and have to live far away and commute to work.

Clean air? There is no such thing and never has been. There is only air with varying degrees of impurities, varying amounts of which can be removed at varying costs.

Removing the kinds of things that choke our lungs or otherwise threaten our health is usually not that expensive. But science is becoming capable of detecting ever more minute traces of impurities with ever more insignificant consequences. Yet where is the politician who is going to resist calls for removing more impurities in the name of "clean air"?

Who is going to resist calls to "save the environment"? Only an economist is likely to ask, "Save it from what or from whom—and at what price?"

Bumper stickers in and around Redwood City, California, long proclaimed: "Save Pete's Harbor." What did that even mean? In practice, it meant letting one set of people use it as a marina and preventing other people from replacing the marina with housing.

When the Constitution of the United States says that the government owes “equal protection” to all its citizens, why should the government intervene on behalf of one set of contending citizens against another, much less call that “saving” the environment? People have been bidding against one another for the same resources for centuries. Why replace that process with politicians’ control? The 20th century was a virtual laboratory test of political control of economic activities—and it was such a dismal failure that even socialists and communists began abandoning that way of doing things by the 1990s.

Even when you don’t realize that you are bidding against other people, you are. When you drive into a filling station and fill up your tank with gasoline, you are bidding against people who want petroleum in the form of heating oil, plastics, or Vaseline.

Lunches don’t get free just because you don’t see the prices on the menu. And economists don’t get popular by reminding people of that.

Housing Hurdles

A new study shows that you need an income of about $104,000 to buy an average home on the San Francisco peninsula with a 20 percent down payment. Since the average price of a home in this area is more than half a million dollars, the 20 percent down payment itself would be more than $100,000.

These aren't mansions we are talking about. Often they are little nondescript houses packed pretty close together.

Who can afford to buy a home in such an area? Not many. California is among the states with the lowest rates of home ownership. Moreover, many of those who do own homes in coastal California bought them long ago, before the state's home prices went sky high in the wake of severe building restrictions promoted by environmental extremists.

Things are not much better when it comes to renting. A calculation of how many hours someone making the minimum wage would have to work to pay the rent on a one-bedroom apartment in this general area showed that, in San Jose, a minimum-wage worker would have to work 168 hours just to pay the rent.

At 40 hours a week, that means working the whole month to pay rent, with nothing left over for frills like food and clothing. Tell this to someone on the Left Coast and the answer will come back immediately: Raise the minimum wage!

If people cannot afford even a one-bedroom apartment while making minimum wages, they certainly cannot afford

it when they are unemployed—and minimum wage laws have a track record around the world of increasing the unemployment rate.

Many people are so struck by California's outrageous housing prices that they do not realize that money is just one of the costs of the innumerable restrictions and requirements imposed on anyone who wants to build anything in those parts of California where environmental zealots are dominant—which includes most of the coast and the whole San Francisco Bay area.

Whether costs take the form of money or of long commutes, highway congestion and the deaths that inevitably result, the fundamental problem is that few people stop to think through the consequences of turning fashionable notions into laws.

Among the many restrictions on building in those parts of California dominated by environmental zealots are restrictions on the height of buildings. Some people think that it is enough to say that they don't want California to start looking like Manhattan.

But what if we stop and think through the consequences of height restrictions? First of all, rents are going to have to be higher, but that is just the beginning.

Why are rents going to have to be higher? Because two five story buildings take up twice as much land as one ten-story building housing the same total number of people.

In a state like California, where the cost of land is often higher than the cost of what is built on the land, using twice as much land per apartment means that rents are going to have to be much higher—perhaps twice as high or more—to cover the additional costs created by height restrictions.

With more land being required to house the same number of people, this also means that the whole

metropolitan area is going to have to be larger than it would be if it could expand upward instead of just outward. More people are going to have to commute to work.

Those who impose height restrictions can ignore such things. A few blithe words about not wanting their community to look like Manhattan are usually about all the thought they give to the subject. It would never occur to them to ask the real question: How much don't you want it to look like Manhattan? How high a price are you prepared to pay?

A doubling of rent and 3 additional highway fatalities a year? A tripling of rents and 10 additional highway fatalities a year?

Whatever the answer, the point is that height restrictions are not a free lunch—whether the costs are measured in money or in lives. A lot of people who cannot afford it are paying heavily for the ego trips of environmental zealots.

The "Cost" of Medical Care

If you ask most people about the cost of medical care, they may tell you how much they have to pay per visit to their doctor's office or the monthly bill for their prescription drugs. But these are not the costs of medical care. These are the prices paid.

The difference between prices and costs is not just a fine distinction made by economists. Prices are what pay for costs—and if they do not pay enough to cover the costs, then centuries of history in countries around the world show that the supply is going to decline in quantity or quality, or both. In the case of medical care, the supply is a matter of life and death.

The average medical student graduates with a debt of more than $100,000. The cost per doctor of running an office is more than $100 an hour. The average cost of developing a new pharmaceutical drug is $800 million. These are among the costs of medical care.

When politicians talk about "bringing down the cost of medical care," they are not talking about reducing any of these costs by one cent. They are talking about forcing prices down through one scheme or another.

All the existing efforts to control the rising expenses of medical care—whether by government, insurance companies, or health maintenance organizations—are about holding down the amount of money they have to pay out, not about reducing any of the real costs.

Many of the same politicians who are gung ho for

imposing price controls on prescription drugs, or for importing Canadian price controls by importing American medicines from Canada, have not the slightest interest in stopping frivolous lawsuits against doctors, hospitals, or drug companies—which are huge costs.

Price control zealots likewise seldom have any interest in reducing the amount of federal requirements for getting a drug approved for sale to the public—a process that can easily drag on for a decade or more, costing millions of dollars, and also costing the lives of those who die while waiting for the drug to be approved by bureaucrats at the Food and Drug Administration.

For political purposes, what "bringing down the cost of medical care" means is some quick fix that will win votes at the next election, regardless of what the repercussions are thereafter.

What are those repercussions?

If the bureaucratic hassles that doctors have to go through make their huge investment in time and money going to medical school not seem worthwhile, some can retire early and some can take jobs no longer involving treating patients. Either way, the supply of medical care can begin to decline, even in the short run.

In the long run, medical school may no longer look like such a good investment to many in the younger generation. Britain, which has had government-run medical care for more than half a century, has to import doctors from the Third World, where medical school standards are lower.

So long as there are warm bodies with "M.D." after their names, there is no decline in supply, as far as politicians are concerned. Only the patients will find out, the hard way, what declining quality means.

No law passed by more than 500 members of Congress is

going to be simple or even consistent. There are already 125,000 pages of Medicare regulations. "Universal health care" can only mean more.

I saw a vivid example of what bureaucratic medical care meant back in 1959, when I had a summer job at the headquarters of the U.S. Public Health Service in Washington. Around 5 o'clock one afternoon, a man had a heart attack on the street near our office.

He was taken to the nurse's room and was asked if he were a federal employee. If he was, he could be sent to the large, modern medical facility right there in the Public Health Service headquarters. But he was not a government employee, so an ambulance was summoned from a local hospital.

By the time this ambulance made its way through miles of downtown Washington rush-hour traffic, the man was dead. He died waiting for a doctor, in a building full of doctors. That is what bureaucracy means.

Making a government-run medical care system mandatory—"universal" is the pretty word for mandatory—means that we will all have no choice but to be caught up in that bureaucratic maze.

Subsidies Are All Wet

For years we have been hearing about a water shortage in the western states. To most people, that might suggest that there just is not enough water for all the people in those states. But, when an economist hears the word "shortage," it has an entirely different meaning.

What specifically is a shortage? It is a situation where you are willing to pay the price but simply cannot find as much as you want. To an economist, the question is: Why doesn't the price rise then? If it did, some people would demand less and others would supply more until supply and demand balanced.

Put differently, a shortage is a sign that somebody is keeping the price artificially lower than it would be if supply and demand were allowed to operate freely. That is precisely why there is a water shortage in the western states.

Even in California's dry Central Valley, less than 10 percent of the water available from federal water projects is used by cities and industries. The vast majority of it is used by farmers, who pay a fraction of what urban users pay, thanks to federal price fixing.

Like everything that is made artificially cheap, water is used lavishly, including the growing of crops like cotton that require huge amounts of water. It is one thing to grow cotton in Southern states with abundant rainfall. It is something else to grow it out in a California desert with water supplied largely at the taxpayers' expense.

The long-term contracts under which this ridiculous

arrangement goes on expire this year, so theoretically these contracts could be renegotiated so that everyone who uses water supplied by federal water projects has to pay his own way and cover the costs of the operation. Alas, this is an election year, so you can bet the rent money that no such thing is going to happen.

A Department of the Interior spokesman explains it this way: "We don't think it is a good idea for California or the nation to adopt punitive pricing proposals that might have the effect of driving more agriculture out of existence."

Isn't that a lovely thought? Apparently the only people toward whom the government can be "punitive" are the taxpayers.

We live in what is often called a profit system but, as Milton Friedman explained long ago, it is really a profit-and-loss system. The losses are just as important as the profits, though not nearly as popular.

Running up losses because you are using resources that are more valuable somewhere else is precisely what forces you to stop the waste. If you are too stubborn to stop, then you will get stopped by bankruptcy.

In other words, some enterprises should be forced out of existence, however much that might shock the delicate sensibilities of the Department of the Interior during an election year.

As for agriculture, we have been running chronic agricultural surpluses for more than half a century and scrambling to find some way to store it, export it or just plain give it away. So many other countries have the same problem that we might be able to eat heartily—and remain overweight—even if we stopped farming entirely and bought up their agricultural surpluses instead.

Things are never going to get to that point. But it

illustrates how fraudulent it is for the government, the environmentalists or farm lobbies to try to scare us with the specter of losing agricultural land.

Incidentally, these same kinds of policies can be found halfway around the world in India, where government-subsidized water is used so lavishly that the water table is falling in the Punjab. Similar incentives produce similar results in various times and places.

Nobody is going to risk losing the farm vote during an election year. However, even though rationality is not likely to triumph when government water contracts are renewed this year, it should be possible to put limits on the insanity.

First of all, the contracts could be set for much shorter periods, to limit how much longer the damage goes on. And they could be set to expire in an odd-numbered year, when there are no federal elections.

A Taxing Experience

When liberals in the media or in politics start being alarmed about the national debt, it means just one thing: They want higher taxes. The thought of reducing spending would never cross their minds.

As we are endlessly reminded, the federal government's debt has reached record levels during the Bush administration. That enables the liberal media to use their favorite word—"crisis"—and adds urgency to doing their favorite thing, raising taxes.

Since we have a larger population than ever and a larger national income than ever, it should hardly be surprising that we also have a larger national debt than ever. But what does it mean?

Donald Trump probably has a bigger debt than I do—and less reason to worry about it. Debt means nothing unless you compare it to your income or wealth.

How does our national debt today compare to our national income? As a percentage of the national income, the privately held national debt today is lower than it was a decade ago, during the Clinton administration, when liberals did not seem at all panicked as they seem today.

If someone were to produce a political dictionary, "crisis" would be defined as a desire to pass a law and "national debt" would be defined as a desire to raise taxes. And the two in combination would mean a desire to discredit the existing administration.

If it seems that raising taxes is the only way to reduce the

national debt, at least when so much spending is mandated by "entitlement" programs, that only shows the need for an economic dictionary. "Taxes" is one of those treacherous words with more than one meaning, enabling politicians to shift back and forth between meanings when they talk.

Unless spending is reduced, then of course more tax revenues are necessary in order to reduce a deficit or bring down a debt. But tax revenues and tax rates are two different things, even though the same word—"taxes"—is used to refer to both.

What "tax cuts" cut is the tax rate. But tax revenues can rise, fall, or stay the same when tax rates are cut. Everything depends on what happens to income.

Tax revenues rose after the Kennedy tax cuts of the 1960s and the Reagan tax cuts of the 1980s because incomes rose. Incomes are likewise rising during the Bush administration today.

If Congress can just reduce the rate of increase in spending, rising tax revenues can reduce the deficit and eventually eliminate it. But of course that will not give liberals an excuse to raise tax rates or even to denounce "tax cuts for the rich."

There was a time when the purpose of taxes was to pay for the inevitable costs of government. To the political left, however, taxes have long been seen as a way to redistribute income and finance other social experiments based on liberal ideology.

Given that agenda, it is hardly surprising that some of the biggest spending liberals can go into hysterics over the national debt, especially when that debt exists under a conservative administration of the opposite party.

This does not mean that nothing needs to be done about the national debt or about our tax system. A lot could

be done about both—but it would not be what liberals want done.

Promoting the growth of the national economy would be one of the fastest and best ways of reducing the national debt. We could, for example, stop letting little bands of self-righteous activists stifle the building of homes or businesses under "open space" laws and stop the drilling of oil off-shore, on-shore, or elsewhere.

As for taxes, we could stop taxing productivity and start taxing consumption. After all, productivity is what makes a society more prosperous.

Despite political use of the envy factor to cause resentment of people whose high productivity earns high incomes, someone who is adding to the total wealth of this country is not depriving you of anything. But someone who is consuming the nation's wealth without contributing anything to it, is costing you and everyone else who is carrying his share of the load. Yet our tax system penalizes those who are producing wealth in order to subsidize those who are only consuming it.

Tax reform is overdue, national debt or no national debt.

Profits without Honor

Profits are certainly without honor among the intelligentsia. The very word produces negative reactions, even from people who cannot give you a single reason why money carrying that label is worse than money called by other names.

Many professional athletes and entertainers earn salaries higher than what the vast majority of business owners earn as profits, yet there is no moral indignation from those who are in the business of moral indignation.

Some claim not to be against profits, as such, but against "obscene profits." Yet they offer no clue as to how we are to tell obscene profits from R-rated profits or PG-13 profits.

One of the supposedly damning charges against pharmaceutical companies is that they earn those famous obscene profits. The figure of 18 percent is thrown around and may even be accurate, for all I know. But it doesn't make enough difference to bother checking it out.

The unspoken assumption—and fallacy—is that high profits mean high prices. But, back in the heyday of the A & P grocery chain, its profit rate never fell below 20 percent for a whole decade—and it was at that time the pre-eminent grocery chain in the country precisely because of its low prices and high quality.

Then, as conditions changed, other grocery chains found ways to operate at lower costs, enabling them to charge even lower prices than A & P, taking away its customers.

It has been estimated that a supermarket today makes a

clear profit of about a penny on a dollar of sales. If that sounds pretty skimpy, remember that it is collecting that penny on every dollar at several cash registers simultaneously and, in many cases, around the clock.

When a supermarket sells out its entire contents in about two weeks, that means that the dollar on which it made a penny of profit in the first half of January comes back for them to make another penny in the second half of January. By the end of the year, that dollar has come back 25 times and earned 26 cents.

Does that mean that the supermarket is making a 26 percent rate of profit? Not at all. The rate of profit on sales differs from the rate of profit on investment, which is what really counts.

The point here is that the relationship between prices and the rate of return on investment can be very tenuous. Small grocery stores, with slower turnover, can be struggling to survive while charging higher prices than those in a prospering supermarket.

Why have both local and national governments in recent years begun having many of their traditional functions, from garbage collection to running prisons, done by private companies? Because these private, profit-making companies can usually get the job done cheaper and better.

If profits were just extra costs arbitrarily added on to the costs of production, then non-profit institutions or whole countries that operated without profit, such as the Soviet Union, would have had lower costs. Almost invariably, however, enterprises that operate without the incentive of profit have had higher costs, not lower costs.

It was not a free-market think tank, but Soviet economists, who pointed out that Soviet industry used far more inputs to produce a given output than did market

economies like Germany, Japan or the United States. Economically illiterate people—which, unfortunately includes much of the intelligentsia—have never understood the role of profit as an incentive to keep costs down.

To the economically illiterate, if some company makes a million dollars in profit, this means that their products cost a million dollars more than they would have cost without profits. It never occurs to such people that these products might cost several million dollars more to produce if they were produced by enterprises operating without the incentives to be efficient created by the prospect of profits and the fear of losses.

If "obscene profits" are what cause pharmaceutical drugs to cost so much, why haven't socialist countries set up their own government-owned pharmaceutical enterprises to produce drugs more cheaply? Why don't non-profit organizations here do that?

It is because rhetoric is cheap but creating drugs is not. Recent estimates are that it costs $800 million per new drug. That is why drug prices are so high. But needless suffering and premature deaths are even higher costs.

Profits without Honor: Part II

Those who rail against profits and "greed" seldom stop to think through what they are saying, much less go check the facts.

Most of the great American fortunes—Rockefeller, Ford, Carnegie, etc.—came from finding more efficient ways to produce a product or service at a lower cost, so that it could be sold at a lower price and attract more customers. If making a fortune represents greed, then greed is what drives prices down.

None of this matters to people who have been conditioned to respond to the word "profit" automatically, much as Pavlov's dog was conditioned to respond to certain sounds.

"Never speak to me of profit," India's legendary leader Pandit Nehru once said to that country's leading industrialist. "It's a dirty word." Policies based on that attitude cost millions of Indians a better life for decades, by stifling India's businesses.

Indian businesses flourished around the world—except in India. Only after India's severe restrictions on business were lifted in the past dozen years has its economic growth taken off, creating rising incomes, employment and tax revenues. This poverty-stricken country could have had all those things 40 years earlier, except for a prejudice against a word.

Unthinking prejudices and suspicions about profits are often matched by unthinking gullibility about "non-profit"

organizations. No matter what money may be called, both individuals and organizations must have it in order to survive.

Businesses get their money from those who buy their goods and services. Non-profit organizations are crucially dependent on money from other people—either voluntary donations, tax money from the government, or money extracted from businesses through lawsuits.

Where there is a product or service of widely recognized value, such as education or medical care, schools and hospitals can attract donations on that basis. But there are other non-profit organizations which can survive only by inspiring fears and anger that bring in donations.

For these kinds of non-profit organizations, the sky is always falling or we are threatened with seeing the last few patches of unspoiled land paved over for shopping malls, virtually everything is "unsafe," we are running out of natural resources, and air and water are becoming dangerously polluted.

Facts do no make a dent in these claims. No matter how much data show air and water pollution to be far less than in the past, that only a small fraction of the land of this country is paved over, or that there are far more known reserves of natural resources today than there were half a century ago, or that life expectancy is increasing despite innumerable "dangers" proclaimed by hysteria-mongers, the media continue to take these people seriously because non-profit is equated with unbiased.

The media treat "consumer advocates," for example, as if they had some expertise, rather than propaganda skills. But there are no qualifications whatever required to become a "consumer advocate." Nor is there any test whatever for whether a "public interest" law firm in fact serves the public

interest, rather than filling its own coffers with damage awards or advancing its own ideological agenda with harassing lawsuits.

Unlike profit-seeking businesses, which must keep down costs in order to survive, many of the costs created by non-profit organizations fall entirely on others. Those others include not only their donors but also those who pay in many ways for the government-imposed restrictions created at the urging of non-profit crusaders.

These costs include sky-high housing prices in places where non-profit organizations can get state and local governments to forbid, restrict or harass anyone seeking to build homes or apartments. Frivolous lawsuits by "public-interest" law firms drive up prices with huge damage awards against businesses, doctors, and others.

The biggest costs may be paid by people needing medical care in places where expensive malpractice insurance, brought on by frivolous lawsuits, has driven doctors away.

These are very high prices to pay for a halo around words like "non-profit," "public interest" or "consumer advocate."

Two Earthquakes

Within a week of each other, two earthquakes struck on opposite sides of the world—an earthquake measuring 6.5 on the Richter scale in California and a 6.6 earthquake in Iran. But, however similar the earthquakes, the human costs were enormously different.

The deaths in Iran have been counted in the tens of thousands. In California, the deaths did not reach double digits. Why the difference? In one word, wealth.

Wealth enables homes, buildings and other structures to be built to withstand greater stresses. Wealth permits the creation of modern transportation that can quickly carry injured people to medical facilities. It enables those facilities to be equipped with more advanced medical apparatus and supplies, and amply staffed with highly trained doctors and support staff.

Those who disdain wealth as crass materialism need to understand that wealth is one of the biggest life-saving factors in the world. As an economist in India has pointed out, "95% of deaths from natural hazards occur in poor countries."

You can also see the effect of wealth by looking at the same country at different times. The biggest hurricane to hit the United States was hurricane Andrew in 1992 but it took fewer than 50 lives. Yet another hurricane, back in 1900, took at least 6,000 lives in Galveston.

The difference was that the United States was a much richer country in 1992. It had earlier warning from more

advanced weather tracking equipment. It had better roads and more cars in which to evacuate an area before a hurricane strikes, as well as more and better equipment for digging victims out of debris, and better medical treatment available for those who needed it.

Those who preen themselves on their "compassion" for the poor, and who disdain wealth, are being inconsistent, if not hypocritical. Wealth is the only thing that can prevent poverty. However, if you are not trying to prevent poverty but to exploit it for political purposes, that is another story.

There is another side to the story of these two earthquakes and their consequences. It gives the lie to the dogma being propagandized incessantly, from the schools to the media, that one culture is just as good as another.

It is just as good to lose tens of thousands of lives as not to? What hogwash! It is just as good to lack modern medicine, modern transportation, and modern industry as it is to have them? Who is kidding whom?

This dogmatism prevails at home as well as internationally. Cultures that lead to most children being born to single mothers are just as good as cultures where children grow up with two parents—if you believe the dogma.

Facts say the opposite. Whether it is education, crime, or poverty, there are huge differences between single-parent families and two-parent families.

Even race doesn't make as much difference in outcomes. The poverty rate among black married couples is in single digits. The infant mortality rate among black married women with only a high school diploma is lower than the infant mortality rate among white unmarried women who have been to college.

None of this makes a dent in those who promote the big

lie that one culture is just as good as another. What does it even mean to say that? Does it mean that facts fit the dogma? Or does it just mean that they choose to use words in a certain way? It may not make any difference in their theories, but only in the real world.

None of this means that one culture is better than another for all purposes. The cheap vulgarity and brutal ugliness of so much of our media is a legitimate complaint at home and abroad. The sheer silliness of our fad-ridden public schools is a national disgrace.

By the same token, cultures that are less advanced in some ways often have contributions to make in other ways. We all take different things from different cultures to create our own personal lifestyles. We need to stop pretending that it makes no difference when all the facts show that it makes a huge difference, from poverty to matters of life and death.

Peter Bauer (1915–2002)

The death of Peter Bauer cannot pass unmarked. He was one of those people to whom we all owe a great debt, whether we realize it or not. He insisted on talking sense, even when dangerous nonsense was at the height of its popularity.

In the last two decades of his life, he was Lord Bauer, courtesy of British Prime Minister Margaret Thatcher. For most of his career, however, he was Professor Peter Bauer of the London School of Economics. His specialty was the economics of under-developed countries.

The dominant orthodoxy in development economics was that Third World countries were trapped in a vicious cycle of poverty that could be broken only by massive foreign aid from the more prosperous industrial nations of the world. This was in keeping with a more general vision on the left that people were essentially divided into three categories—the heartless, the helpless, and wonderful people like themselves, who would rescue the helpless by playing Lady Bountiful with the taxpayers' money.

Peter Bauer never bought any part of that vision. He had too much respect for people in the Third World, where he had lived for years, to think of them as helpless. "Before 1886," he pointed out, "there was not one cocoa tree in British West Africa. By the 1930s, there were millions of acres under cocoa there, all owned and operated by Africans." He rejected "condescension toward the ordinary

people" of the Third World and "the classification of groups as helpless."

Third World people were just as capable of responding to the incentives of a market economy as anyone else, according to Professor Bauer, despite development economists like Gunnar Myrdal who depicted them as needing government planning imposed on them to get ahead. Development economists' hostility to the market and "contempt for ordinary people" were to Bauer "only two sides of the same coin."

If poverty was a trap from which there was no escape, Bauer declared, we would all still be living in the stone age, since all countries were once as poor as Third World nations are today.

Peter Bauer considered it arbitrary and self-serving to call international transfers of money to Third World governments "foreign aid." Whether it was an aid or a hindrance was an empirical question. Sometimes it could turn out to be simply "transferring money from poor people in rich countries to rich people in poor countries."

Bauer likewise rejected "overpopulation" as a cause of Third World poverty, even though that was also one of the key dogmas of development economics. Like so much else that derived from the liberal-left vision of the world, "overpopulation" theories served as justifications for running other people's lives.

Peter Bauer pointed out that many Third World countries were much more thinly populated than such prosperous industrial nations as Japan, which has ten times the population density of sub-Saharan Africa. Moreover, some Third World countries had ample fertile land, much of it lying unused, and often also had valuable natural resources, such as were lacking in Japan.

The later research of Hernando de Soto, published in his book *The Mystery of Capital*, added still more evidence that supported Peter Bauer's thesis that Third World people were capable of creating wealth, even if their governments followed economically counterproductive policies that held them back.

For decades on end, Peter Bauer stood virtually alone in opposing the prevailing dogmas of development economists. They in turn dismissed him as someone far outside the mainstream. But, with the passing years and the repeated and catastrophic failures of policies and programs based on the theories of development economics, the orthodoxy began to erode and finally to collapse.

At the end of his life, Peter Bauer was in the mainstream—not because he had moved but because the mainstream had now moved over to where he had been all along. It is a painful reflection on those who award Nobel Prizes that Gunnar Myrdal received one and Peter Bauer did not. Yet, on the eve of his death, Lord Bauer was awarded the Milton Friedman prize, worth half a million dollars, for his work.

Peter Bauer's career should be an inspiration to all those who fight an uphill battle against prevailing orthodoxies.

Journalists and Economics

A recent front-page story in the *Wall Street Journal* told of rising hunger and malnutrition amid chronic agricultural surpluses in India. India is now exporting wheat, and even donating some to Afghanistan, while malnutrition is a growing problem within India itself.

This situation is both paradoxical and tragic, but what is also remarkable is that the long article about it omits the one key word that explains such a painful paradox: Price.

There can be a surplus of any given thing at any given time. But a chronic surplus of the same thing, year after year, means that somebody is preventing the price from falling. Otherwise the excess supply would drive down the price, leading producers to produce less—and consumers to consume more—until the surplus was gone.

What is happening in India is that the government is keeping the price of wheat and some other agricultural produce from falling. That is exactly what the government of the United States has been doing for more than half a century, leading to chronic agricultural surpluses here as well. Nor are India and the United States the only countries with such policies, leading to such results.

Although Americans are wrestling with obesity while Indians are suffering malnutrition, the economic principle is the same—and that principle is totally ignored by the reporters writing this story for the *Wall Street Journal*.

There is no special need to single out the *Wall Street Journal* for this criticism, except that when economic

illiteracy shows up in one of the highest quality publications in the country that shows one of the great deficiencies of journalists in general.

One of the many jobs offered to me over the years, to my wife's astonishment, was a job as dean of a school of journalism. While I was not about to give up my own research and writing, in order to get tangled up in campus politics, the offer made me think about what a school of journalism ought to be teaching people whose jobs will be to inform the public.

They first and foremost ought to know what they are talking about, which requires a solid grounding in history, statistics, science—and economics. Since journalists are reporting on so many things with economic implications, they should have at least a year of introductory economics.

People with a basic knowledge of economics would understand that words like "surplus" and "shortage" imply another word that may not be mentioned explicitly: Price. And chronic surpluses or chronic shortages imply price controls.

Conversely, price controls imply chronic surpluses or shortages—depending on whether price controls keep prices from falling to the level they would reach under supply and demand or keep them from rising to that level.

Controls that keep prices from falling to the level they would reach in response to supply and demand include not only agricultural price supports like those in India but also minimum wage laws, which are equally common in countries around the world. Just as an artificially high price for wheat set by the government leads to a chronic surplus of wheat, so an artificially high price for labor set by the government leads to a surplus of labor—better known as unemployment.

Since all workers are not the same, this unemployment is concentrated among the less skilled and less experienced workers. Many of them are simply priced out of a job.

In the United States, for example, the highest unemployment rates are almost invariably among black teenagers. But this was not always the case.

Although the federal minimum wage law was passed in 1938, wartime inflation during the Second World War meant that the minimum wage law had no major effect until a new round of increases in the minimum wage level began in 1950. Unemployment rates among black teenagers before then were a fraction of what they are today—and no higher than among white teenagers.

The time is long overdue for schools of journalism to start teaching economics. It would eliminate much of the nonsense and hysteria in the media, and with it perhaps some of the demagoguery in politics.

Stock Crash Aftermath

What can be even worse than a stock market crash—including the great crash of 1929—are politicians rushing in to fix things. At one time, it was widely assumed that the 1929 crash led directly to the Great Depression that lasted throughout the decade of the 1930s. Now more and more people who have studied that era have come to the conclusion that what the government did to help was itself one of the biggest reasons why the depression went so deep and lasted so long.

Even a liberal economist like John Kenneth Galbraith described the actions of the Federal Reserve in response to the 1929 crash as "shockingly incompetent." Neither Republican President Herbert Hoover nor his Democratic successor, Franklin D. Roosevelt had a clue about economics or a policy that made any sense.

Both sought to keep prices—including wages—up, despite the fact that the money supply had declined by one third. How was the country supposed to buy all the output at existing prices, and employ all the workers at existing wages, when there was so much less money?

One of Herbert Hoover's biographers said aptly that he was a great man but not a great president. Anyone who doubts his greatness should study the history of his massive program to feed starving people in Europe during and after the First World War.

Most people would have raised the money first and then bought the food, but Hoover realized that people would be

dying while he was raising money. So he risked his own personal fortune by buying the food first, hoping to raise enough money later from donations to recover all the millions of dollars it would take to pay for the food. It worked out in the end, but it didn't have to.

Had Hoover never become president, he would have gone down in history as simply one of the great humanitarians of the 20th century. As it was, he was demonized politically for decades as the calloused president who refused to take responsibility to help those ruined by the depression.

In reality, it was Hoover—not FDR—who became the first president to throw the power of the federal government into the effort to get the country out of a depression. In recent years, it has become more widely acknowledged that Roosevelt's New Deal was essentially Hoover's policies raised to the next exponent, spending on a more lavish scale and saddling the country with counterproductive programs that have lasted into the next century.

The fact that the first government efforts to get the country out of a depression—by both Hoover and FDR—were followed by the longest depression in our history has also not been lost on some economists. Quite aside from the specific harm done by specific programs, the general uncertainty generated by unpredictable government interventions made investors reluctant to make the long-term commitments needed to generate more jobs, more output, and more purchasing power.

Not only the Federal Reserve and two presidents managed to make the Great Depression worse, so did Congress. When Congress passed the Hawley-Smoot tariff of 1930, it contributed to a worldwide contraction in

international trade, as country after country tried to "save jobs" by protectionism.

The notion that the stock market crash of 1929 caused the Great Depression that ravaged the 1930s has long been popular on the left, since this blames capitalism and casts government in the role of rescuer of the economy. However, Professor Peter Temin of MIT has pointed out that in 1987 the "stock market fell almost exactly the same amount on almost exactly the same days of the year"—and there was no depression.

The Reagan administration was not the New Deal. The economy recovered quickly on its own and kept on growing.

This year's scandals and stock market collapse could not have come at a worse time, with an election coming up and no other big issues around for politicians to use. It is also worth noting that there are only two economists in Congress and hundreds of lawyers, ready to say and do whatever will look good and feel good at the moment.

If Congress passes laws that put corporate crooks behind bars for a long time, that is fine. But if it passes laws that will enable politicians to micro-manage businesses, that is a proven formula for big economic problems for a long time to come.

Milton Friedman at 90

Milton Friedman's 90th birthday provides an occasion to think back on his role as the pre-eminent economist of the 20th century. To those of us who were privileged to be his students, he also stands out as a great teacher.

When I was a graduate student at the University of Chicago, back in 1959, one day I was waiting outside Professor Friedman's office when another graduate student passed by. He noticed my exam paper on my lap and exclaimed: "You got a B?"

"Yes," I said. "Is that bad?"

"There were only two B's in the whole class," he replied.

"How many A's?" I asked.

"There were no A's!"

Today, this kind of grading might be considered to represent a "tough love" philosophy of teaching. I don't know about love, but it was certainly tough.

Professor Friedman also did not let students arrive late at his lectures and distract the class by their entrance. Once I arrived a couple of minutes late for class and had to turn around and go back to the dormitory.

All the way back, I thought about the fact that I would be held responsible for what was said in that lecture, even though I never heard it. Thereafter, I was always in my seat when Milton Friedman walked in to give his lecture.

On a term paper, I wrote that either (a) this would happen or (b) that would happen. Professor Friedman wrote in the margin: "Or (c) your analysis is wrong."

"Where was my analysis wrong?" I asked him.

"I didn't say your analysis was wrong," he replied. "I just wanted you to keep that possibility in mind."

Perhaps the best way to summarize all this is to say that Milton Friedman is a wonderful human being—especially outside the classroom. It has been a much greater pleasure to listen to his lectures in later years, after I was no longer going to be quizzed on them, and a special pleasure to appear on a couple of television programs with him and to meet him on social occasions.

Milton Friedman's enduring legacy will long outlast the memories of his students and extends beyond the field of economics. John Maynard Keynes was the reigning demi-god among economists when Friedman's career began, and Friedman himself was at first a follower of Keynesian doctrines and liberal politics.

Yet no one did more to dismantle both Keynesian economics and liberal welfare-state thinking. As late as the 1950s, those with the prevailing Keynesian orthodoxy were still able to depict Milton Friedman as a fringe figure, clinging to an outmoded way of thinking. But the intellectual power of his ideas, the fortitude with which he persevered, and the ever more apparent failures of Keynesian analyses and policies, began to change all that, even before Professor Friedman was awarded the Nobel Prize in economics in 1976.

A towering intellect seldom goes together with practical wisdom, or perhaps even common sense. However, Milton Friedman not only excelled in the scholarly journals but also on the television screen, presenting the basics of economics in a way that the general public could understand.

His mini-series "Free to Choose" was a classic that made economic principles clear to all with living examples. His

good nature and good humor also came through in a way that attracted and held an audience.

Although Friedrich Hayek launched the first major challenge to the prevailing thinking behind the welfare state and socialism with his 1944 book *The Road to Serfdom*, Milton Friedman became the dominant intellectual force among those who turned back the leftward tide that once seemed to be the wave of the future. Without Milton Friedman's role in changing the minds of so many Americans, it is hard to imagine how Ronald Reagan could have been elected president.

Nor was Friedman's influence confined to the United States. His ideas reached around the world, not only among economists, but also in political circles which began to understand why left-wing ideas that sounded so good produced results that were so bad.

Milton Friedman rates a 21-gun salute on his birthday. Or perhaps a 90-gun salute would be more appropriate.

"Price Gouging" in Florida

In the wake of the hurricanes in Florida, the state's attorney general has received thousands of complaints of "price gouging" by stores, hotels, and others charging far higher prices than usual during this emergency.

"Price gouging" is one of those emotionally powerful but economically meaningless expressions that most economists pay no attention to, because it seems too confused to bother with. But a distinguished economist named Joseph Schumpeter once pointed out that it is a mistake to dismiss some ideas as too silly to discuss, because that only allows fallacies to flourish—and their consequences can be very serious.

Charges of "price gouging" usually arise when prices are significantly higher than what people have been used to. Florida's laws in fact make it illegal to charge much more during an emergency than the average price over some previous 30-day period.

This raises questions that go to the heart of economics: What are prices for? What role do they play in the economy?

Prices are not just arbitrary numbers plucked out of the air. Nor are the price levels that you happen to be used to any more special or "fair" than other prices that are higher or lower.

What do prices do? They not only allow sellers to recover their costs, they force buyers to restrict how much they demand. More generally, prices cause goods and the

resources that produce goods to flow in one direction through the economy rather than in a different direction.

How do "price gouging" and laws against it fit into this?

When either supply or demand changes, prices change. When the law prevents this, as with Florida's anti-price-gouging laws, that reduces the flow of resources to where they would be most in demand. At the same time, price control reduces the need for the consumer to limit his demands on existing goods and resources.

None of this is peculiar to Florida. For centuries, in countries around the world, laws limiting how high prices are allowed to go have led to consumers demanding more than was being supplied, while suppliers cut back on what they supplied. Thus rent control has consistently led to housing shortages and price controls on food have led to hunger and even starvation.

Among the complaints in Florida is that hotels have raised their prices. One hotel whose rooms normally cost $40 a night now charged $109 a night, and another hotel whose rooms likewise normally cost $40 a night now charged $160 a night.

Those who are long on indignation and short on economics may say that these hotels were now "charging all that the traffic will bear." But they were probably charging all that the traffic would bear when such hotels were charging $40 a night.

The real question is: Why will the traffic bear more now? Obviously because supply and demand have both changed. Since both homes and hotels have been damaged or destroyed by the hurricanes, there are now more people seeking more rooms from fewer hotels.

What if prices were frozen where they were before all this happened?

Those who got to the hotel first would fill up the rooms and those who got there later would be out of luck—and perhaps out of doors or out of the community. At higher prices, a family that might have rented one room for the parents and another for the children will now double up in just one room because of the "exorbitant" prices. That leaves another room for someone else.

Someone whose home was damaged, but not destroyed, may decide to stay home and make do in less than ideal conditions, rather than pay the higher prices at the local hotel. That too will leave another room for someone whose home was damaged worse or destroyed.

In short, the new prices make as much economic sense under the new conditions as the old prices made under the old conditions.

It is essentially the same story when stores in Florida are selling ice, plywood, gasoline, or other things for prices that reflect today's supply and demand, rather than yesterday's supply and demand. Price controls will not cause new supplies to be rushed in nearly as fast as higher prices will.

None of this is rocket science. But Justice Oliver Wendell Holmes said, "we need education in the obvious more than investigation of the obscure."

Economic "Power"

"Is Wal-Mart Good for America?"

That is the headline on a *New York Times* story about the country's largest retailer. The very idea that third parties should be deciding whether a particular business is good for the whole country shows incredible chutzpa.

The people who shop at Wal-Mart can decide whether that is good for them or not. But the intelligentsia are worried about something called Wal-Mart's "market power."

Apparently this giant chain sells 30 percent of all the disposable diapers in the country and the *Times* reporter refers to the prospect of "Wal-Mart amassing even more market power."

Just what "power" does a sales percentage represent? Not one of the people who bought their disposable diapers at Wal-Mart was forced to do so. I can't remember ever having bought anything from Wal-Mart and there is not the slightest thing that they can do to make me.

The misleading use of words constitutes a large part of what is called anti-trust law. "Market power" is just one of those misleading phrases. In anti-trust lingo, a company that sells 30 percent of the disposable diapers is said to "control" 30 percent of the market for that product. But they control nothing.

Let them jack up their prices and they will find themselves lucky to sell 3 percent of the disposable diapers. They will discover that they are just as disposable as their diapers.

Much is made of the fact that Wal-Mart has 3,000 stores in the United States and is planning to add 1,000 more. At one time, the A & P grocery chain had 15,000 stores but now they have shrunk so drastically that there are probably millions of people—especially in the younger generation—who don't even know that they exist.

An anti-trust lawsuit back in the 1940s claimed that A & P "controlled" a large share of the market for groceries. But they controlled nothing. As the society around them changed in the 1950s, A & P began losing millions of dollars a year, being forced to close thousands of stores and become a shadow of its former self.

Let the people who run Wal-Mart start believing the talk about how they "control" the market and, a few years down the road, people will be saying "Wal-Who?"

With Wal-Mart, as with A & P before them, the big bugaboo is that their low prices put competing stores out of business. Could anyone ever have doubted that low-cost stores win customers away from higher-cost stores?

It is one of the painful signs of the immaturity and lack of realism among the intelligentsia that many of them regard this as a "problem" to be "solved." Trade-offs have been with us ever since the late unpleasantness in the Garden of Eden.

How could industries have found all the millions of workers required to create the vast increase in output that raised American standards of living over the past hundred years, except by taking these workers away from the farms?

Historians have lamented the plight of the hand-loom weavers after power looms began replacing them in England. But how could the poor have been able to afford to buy adequate new clothing unless the price was brought down to their income level by mass production machinery?

Judge Robert Bork once said that somebody always gets hurt in a court room. Somebody always gets hurt in an economy that is growing. You can't keep on doing things the old way and still get the benefits of the new way.

This is not rocket science. But apparently some people just refuse to accept its logical implications. Unfortunately, some of those people are in Congress or in courtrooms practicing anti-trust law. And then there are the intelligentsia, perpetuating the mushy mindset that enables this counterproductive farce to go on.

This refusal to accept the fact that benefits have costs is especially prevalent in discussions of international trade. President Bush's ill-advised tariff on foreign steel was a classic example of trying to "save jobs" in one industry by policies which cost far more jobs in other industries making products with artificially expensive steel. Fortunately, he reversed himself.

Is it still news that there is no free lunch?

A Relic of the Recent Past

Only in California would a city that is less than 50 years old have a historical society. But, in California, anything more than a couple of decades old is considered historic and anything that is a century old is considered to be ancient history.

Nevertheless, the Foster City Historical Society has performed a useful service by publishing a little book titled simply "Foster City." It details the building of an attractive middle-class community with about 30,000 people on what was once swamp land.

What makes this story of more than local interest is that Foster City is the kind of community that would be difficult to build today and, in many places, virtually impossible. The very idea of draining a swamp—a sacrosanct "wetland"—would arouse the fury of environmental zealots.

Legalistic hassles over "environmental impact" reports alone might be enough to bankrupt the builders. Environmental impact reports often have little or nothing to do with the environment and everything to do with stopping development.

Nothing is easier than to claim that there will be horrible environmental consequences from building something. Moreover, there is no penalty whatsoever for making charges that can cost others millions of dollars to research and prove wrong.

The whole purpose of the charges may be precisely to cause builders to lose millions of dollars and perhaps have

to give up the whole idea of building anything where the green zealots don't want anything built.

Foster City was built in the 1960s, just before the environmental protection racket went big time, with the aid of legislation and court decisions that gave green zealots the power to impose huge costs on others at little or no cost to themselves.

Nowhere is that power wielded more ruthlessly today than in San Mateo County, where Foster City is located. But, back when Foster City was built, the biggest challenges were physical.

In addition to draining the swamp, levees had to be built to hold back the tide waters of San Francisco Bay, and the land had to be filled in to make it strong enough to support the weight of homes and buildings.

Critics claimed that the first big earthquake would devastate a community built on land-fill—but their claims had no such legal clout as such claims would gain during the 1970s. In reality, Foster City came through the big 1989 earthquake with flying colors, while buildings collapsed and fires broke out from broken gas lines elsewhere in the San Francisco Bay area.

While Foster City is something of a triumph—a beautifully laid out community of attractive homes and condominiums, with parks and lovely lagoons on which boats sail, and miles of bicycle paths—it is also a reminder of the tragedy that no such community can be created today in many places, including the county in which it is located.

It is not that there is no vacant land left in San Mateo County. On the contrary, more than half the county consists of vacant land on which laws forbid the building of anything. Yet environmentalists there, as elsewhere, conjure

up a vision in which the last few patches of greenery are threatened with being paved over.

Even when they are proved wrong by inescapable facts, green zealots often fall back on runaway extrapolations, claiming that they must stop development now or there will be ever increasing population densities, more pollution, more this, more that.

Runaway extrapolations are the last refuge of hysteria mongers when confronted with facts that demolish their lies. Think about it: The temperature has risen about 10 degrees since this morning. If you extrapolate that, we will all be burned to a crisp before the end of the month. Extrapolations prove nothing.

Ironically, many of the same people who have made "development" a dirty word that arouses outrage have nevertheless often looked favorably on "redevelopment."

What is the difference? Development means private initiative to build what people are willing to buy. Redevelopment means government tearing down "blighted" areas, so that whatever bureaucrats and politicians want can be built. Few redevelopments are anywhere near as well done as Foster City.

Who Can Afford It?

"Who can afford to buy a house in this place?" my wife asked, when I read her the average prices of homes in various northern California communities.

"We certainly can't," I said. Our home has more than doubled in value since we bought it 11 years ago. We couldn't live here if we had to pay today's prices. This is not unusual on the peninsula stretching from San Francisco to Silicon Valley.

Home prices can be very misleading in this area because many—if not most—of the people living here never paid those prices. These are the prices of current home sales. They are the prices that newcomers moving in have to pay.

That fact has a lot to do with skyrocketing home prices. The people who vote on the laws which severely restrict building, create costly bureaucratic delays, and impose arbitrary planning commission notions will not have to pay a dime toward the huge costs being imposed on anyone trying to build anything in the San Francisco Bay area. Newcomers get stuck with those costs.

The biggest of these costs is the cost of the land rather than the cost of the houses themselves. The average price of homes is a million dollars in some San Francisco Bay area communities where it would be hard to find a single house that anyone would call a mansion.

Nor are there many new homes being built in these communities. Old homes are simply being bid up in price,

precisely because it is either impossible or ruinously expensive to build new homes.

Unlike other places, where people trying to sell their houses usually have an asking price that they bring down somewhat in the course of negotiations with a prospective buyer, in the San Francisco Bay area the asking price is usually bid up during the competition among people who want to buy.

Someone who bought a home for $100,000 back in the 1970s may put it on sale for $700,000 today—and watch the buyers bid it up to $900,000. The average home price in San Mateo County, where it is nearly impossible to build anything, is $921,000.

There are a lot of nice middle-class homes in San Mateo County, and some rather modest homes, but very few mansions.

One of the middle-class communities in the county is Foster City, a planned community built back in the 1960s. When the first homes went on sale there in 1963, you could buy a three-bedroom house for as little as $22,000. If you wanted something bigger or more fancy, or in a more scenic location, you could still get it for under $50,000.

Today, the average price of a home in Foster City is $1.2 million.

People who wring their hands about a need for "affordable housing" seldom consider that the way to have affordable housing is to stop making it unaffordable. Foster City housing was affordable before the restrictive land use laws in this area made all housing astronomically expensive.

Contrary to the vision of the left, it was the free market which produced affordable housing—before government intervention made housing unaffordable.

None of this is rocket science. Anyone who can

understand the concept of supply and demand can understand that putting most of the land in a whole county off-limits to building will cause the price of the remaining land to rise.

It is the land, rather than the houses that are built on it, which has become astronomically expensive in places with extreme "open space" laws and other severe restrictions on the use of land. In some places without such laws, a house can be bought for a fraction of what that same house would cost in parts of California.

The people who push restrictive laws and policies often try to blame everything else for high housing costs. "Overpopulation" is one such red herring. In reality, the population of San Mateo County has declined by 9,000 people in the past four years while housing prices have risen sharply.

Ironically, a consummately selfish policy of creating costs that force newcomers to pay high prices which existing homeowners will not have to pay is often wrapped in the mantle of idealism and washed down with pious expressions of hope for some way to try to create "affordable housing."

Free-Lunch Medicine

It is always fascinating to see elementary economics make front-page news. It was front-page news in the *Wall Street Journal* of November 12, 2003 that there are long waiting times for seeing medical specialists in Canada and in other countries with government-controlled medical care systems—but not in the United States, where some politicians are trying to get us to imitate those countries.

Shortages where the government sets prices have been common in countries around the world, for centuries on end, whether these shortages have taken the form of waiting lists, black markets, or other ways of coping with the fact that what people demand at an artificially low price exceeds what other people will supply at such prices.

This principle is not limited to medical care. There were waiting lines for food, undershirts, and all sorts of other things in the Communist bloc countries in Eastern Europe before the collapse of Communism in that region. You had to get on a waiting list to buy a poorly made car in India before they began to free up their economy from government controls.

You could go back literally thousands of years and find shortages under price controls in the Roman Empire or in ancient Babylon. But it is still front-page news today because elementary economics has not yet sunk in.

An OECD study shows that the percentage of patients waiting more than 4 months for elective surgery in English-speaking countries is in single digits only in the United

States, where we "lack" the "benefits" of a government-run medical system.

In Canada 27 percent of patients wait more than 4 months and in Britain 38 percent. Elective surgery includes some heart surgery.

Depending on what you are suffering from, and how much you are suffering, longer waits can be a cost that far outweighs monetary savings under price control or government subsidies. Sometimes the wait can be fatal.

There is another kind of waiting—waiting for new medicines to be developed for scourges like cancer, AIDS, and Alzheimer's. Countries with price controls on pharmaceutical drugs have far fewer of such drugs created than the United States does.

Yet Americans, who produce a wholly disproportionate share of the world's new life-saving drugs, are being asked to imitate price control policies in countries where such policies have dried up the costly research behind such discoveries.

These countries have left the development of new drugs to the United States. But if we follow their example by killing the goose that lays the golden egg, who can we turn to for developing new medicines? This could be the most costly free lunch of all.

None of the various schemes for lowering the prices of medicines seems willing to face up to the simple fact that each new medicine developed costs hundreds of millions of dollars. This huge inescapable fact just seems to evaporate from the discussion as politicians vie with one another for the best way to make these medicines "affordable" at "reasonable" prices.

Politicians who claim to be able to "bring down the cost of health care" are talking about bringing down the prices

charged. But prices are not costs. Prices are what pay for costs.

No matter how much lower the government sets the prices paid to doctors, hospitals, or pharmaceutical drug manufacturers, none of this reduces the costs in the slightest.

It still takes just as much time, equipment, and training to turn a medical school student into a doctor. It still takes just as many hospitals to care for the sick. It still takes just as many years of scientific research and clinical trials to create a new medicine.

Those who are dying to control the prices of pharmaceutical drugs are oblivious to the fact that other people may be literally dying unnecessarily if they succeed. There is no free lunch, even though politicians get elected by promising free lunches.

Government price controls on medicines and medical care simply mean that these costs do not all get covered. This works in the short run—and the short run is what politicians are interested in, because elections are held in the short run. But the rest of us had better think ahead, if we value our health.

Free-Lunch Medicine: Part II

Any attempt at a rational discussion of the economic realities of government-controlled medical care is almost certain to run up against the trump card of the political left: The Poor.

The image that is often invoked is that of the elderly poor, forced to choose between food and medical treatment. Who could be so heartless as to abandon them to the vagaries of the free market?

This has proved to be a very effective political strategy for extending government power, not only over medical care but also over housing and other sectors of the economy.

The phoniness of this argument becomes apparent the moment you suggest that money be set aside specifically for dealing with the special problems of the poor, rather than bringing whole sectors of the economy under the dominance of politicians, bureaucrats and judges.

The amount of money needed to take care of the poor is often some minute fraction of what sweeping new government programs cost. But, while big government liberals are willing to use the poor as human shields in their political battles, their more basic strategy is to proclaim that everyone has a "right" to some "basic need" that they want the government to provide.

As a matter of practical politics, programs for the poor alone do not have as large a constituency as programs to give everybody some benefit, so that we can all have the

illusion of getting something for nothing—or at some arbitrarily defined "reasonable" or "affordable" price.

It is completely unreasonable to talk about reasonable prices.

Such talk amounts to saying that economic realities have to adjust to what we are willing to pay, because we are not going to adjust to economic realities. The biggest economic reality that gets ignored in discussions of medical care is that developing a single new medicine or training a single new doctor takes huge amounts of resources.

What we think we can afford has nothing to do with what pharmaceutical drugs cost to develop. Nor does it have anything to do with the costs of training a new doctor or building a new hospital. We are either going to pay those costs or we are not going to get the quantity or the quality that we want.

Schemes for re-importing American drugs from Canada or buying in bulk from pharmaceutical companies are essentially ways of shifting costs around—without reducing these costs by one cent. Already government agencies, HMOs and others are engaged in shifting medical costs onto somebody else. But, for society as a whole, there is no somebody else.

No matter how much the costs are shifted around in clever shell games, those costs do not go away. That is the hard reality which no political rhetoric can change.

The only reason such rhetoric has even the appearance of plausibility is that price controls work in the short run—and that is good enough for politicians, since elections are held in the short run. After all, when the government drives down prices paid to doctors, hospitals or pharmaceutical companies, there is not much that doctors, hospitals or pharmaceutical companies can do about it immediately.

Doctors are not going to give up practicing medicine and become truck drivers. Medical schools are not going to be turned into bowling alleys or hospitals into skating rinks. Pharmaceutical companies cannot suddenly shift to manufacturing cars. So price controls seem to work in the short run—but only in the short run.

When you confront doctors with more hassles with bureaucrats and lower payments for their services, do not expect the medical profession to remain as attractive to bright young people deciding what careers to follow. In the long run, every single doctor is going to have to be replaced by someone from the younger generation, or else we are going to have a shortage of doctors.

Britain, for example, has had government-run medical care for decades and nearly half their doctors are imported, often from Third World countries with lower standards of medical training. Canadian hospitals have less modern equipment available than American hospitals do. They depend on American medicines after destroying incentives to develop their own with price controls.

Is this what we are supposed to imitate?

Free-Lunch Medicine: Part III

A successful political crusade is incomplete without a villain. To play St. George, you need a dragon. The crusade for government control of medical care has made the pharmaceutical industry its villain.

First, there are the "unconscionable" profits of the firms producing medications. Since there is no definition of unconscionable profits, this gives the politicians great flexibility. And, because there are a number of different ways of computing profit rates, that gives them even more flexibility.

A couple of years ago, during the Anthrax scare, there were loud denunciations of Bayer, the manufacturer of the leading drug for treating Anthrax, by liberal Senators like Ted Kennedy and Chuck Schumer. They claimed that Bayer was making too much profit on that drug and should lower the price during a national emergency.

Just for the record, it would have cost 50 dollars to use the drug in question for the time it was needed, after which you could switch to other and less expensive drugs. Also for the record, Bayer operated at a loss during that quarter. When even losses are considered to be unconscionable profits, you can see how flexible these terms are in the hands of political demagogues.

No doubt Bayer was making money on that particular drug but pharmaceutical drugs are a risky business, with many money-losing ventures that have to be covered by the profits on those drugs that do make money.

Ask yourself: If you had some money saved for your retirement and someone suggested that you invest it in the pharmaceutical industry, would all the denunciations of the industry by politicians, and threats to crack down with legislation, make you more willing or less willing to risk investing your money there?

Put differently, how high a rate of return would you require before putting your money into most industries, as compared to how high a rate of return you would require before being willing to invest in the pharmaceutical industry? With liberals breathing fire about "unconscionable profits" and threatening punitive legislation, the pharmaceutical industry would probably have to offer you a higher rate of return before you would risk investing in drug companies.

You might have to make an "unconscionable" rate of return to make the risk worth taking.

You can see the same process at work in some Third World countries, where local demagogues blame these countries' poverty on "exploitation" by foreign investors and threaten to put a stop to it. Whether or not these demagogues actually follow through and carry out their threats, such talk can cause foreign investors to stay away.

They say talk is cheap but political demagoguery can have very high costs. In the case of pharmaceutical drugs, these costs go beyond money to needless pain, disabilities and death, when the rate of new drug discovery suffers from threatening political rhetoric that discourages investment.

Now that we have talked about the dragon, what about St. George? Proponents of government-controlled medical care point out that, despite much longer waits for many medical treatments in Canada, Canadian life expectancy is

slightly higher than that of Americans. Apparently St. George is a success.

That might be decisive evidence if medical care were the only determinant of life expectancy. But even the finest medical care in the world cannot help people who are killing themselves, whether suddenly with a gun or more slowly with drugs or obesity or other dangerous lifestyles.

Americans, for example, are obese more than twice as often as Canadians and our murder rates are higher. Those who resist the idea of personal responsibility are quick to blame objective circumstances, such as medical care.

Some years ago, there were media outcries because black pregnant women received less prenatal care than white pregnant women and their infant mortality rates were higher. But Americans of Chinese, Japanese, and Filipino ancestry also had less prenatal care than whites—and lower infant mortality rates than whites.

The effects of personal behavior cannot be ignored. Neither can the inescapable costs of medical care.

Manufacturing Confusion

"Manufacturing jobs" has become a battle cry of those who oppose free trade and are sounding an alarm about American jobs being exported to lower-wage countries overseas. However, manufacturing jobs are much less of a problem than manufacturing confusion.

Much of what is being said confuses what is true of one sector of the economy with what is true of the economy as a whole. Every modern economy is constantly changing in technology and organization. This means that resources—human resources as well as natural resources and other inputs—are constantly being sent off in new directions as things are being produced in new ways.

This happens whether there is or is not free international trade. At the beginning of the 20th century, 10 million American farmers and farm laborers produced the food to feed a population of 76 million people. By the end of the century, fewer than 2 million people on the farms were feeding a population of more than 250 million. In other words, more than 8 million agricultural jobs were "lost."

Between 1990 and 1995, more than 17 million American workers throughout the economy lost their jobs. But there were never 17 million workers unemployed during this period, any more than the 8 million agricultural workers were unemployed before.

People moved on to other jobs. Unemployment rates in fact hit new lows in the 1990s. None of this is rocket science.

But when the very same things happen in the international economy, it is much easier to spread alarm and manufacture confusion.

There is no question that many computer programming jobs have moved from the United States to India. But this is just a half-truth, which can be worse than a lie. As management consultant Peter Drucker points out in the current issue of *Fortune* magazine, there are also foreign jobs moving to the United States.

In Drucker's words, "Nobody seems to realize that we import twice or three times as many jobs as we export. I'm talking about the jobs created by foreign companies coming into the U.S.," such as Japanese automobile plants making Toyotas and Hondas on American soil.

"Siemens alone has 60,000 employees in the United States," Drucker points out. "We are exporting low-skill, low-paying jobs but are importing high-skill, high-paying jobs."

None of this is much consolation if you are one of the people being displaced from a job that you thought would last indefinitely. But few jobs last indefinitely. You cannot advance the standard of living by continuing to do the same things in the same ways.

Progress means change, whether those changes originate domestically or internationally. Even when a given job carries the same title, often you cannot hold that job while continuing to do things the way they were done 20 years ago—or, in the case of computers, 5 years ago.

The grand fallacy of those who oppose free trade is that low-wage countries take jobs away from high-wage countries. While that is true for some particular jobs in some particular cases, it is another half-truth that is more misleading than an outright lie.

While American companies can hire computer

programmers in India to replace higher paid American programmers, that is because of India's outstanding education in computer engineering. By and large, however, the average productivity of Indian workers is about 15 percent of that of American workers.

In other words, if you hired Indian workers and paid them one-fifth of what you paid American workers, it would cost you more to get a given job done in India. That is the rule and computer programming is the exception.

Facts are blithely ignored by those who simply assume that low-wage countries have an advantage in international trade. But high-wage countries have been exporting to low-wage countries for centuries. The vast majority of foreign investments by American companies are in high-wage countries, despite great outcries about how multinational corporations are "exploiting" Third World workers.

Apparently facts do not matter to those who are manufacturing confusion about manufacturing jobs.

A Cold Shower

Sometimes a phrase betrays a whole mindset. Someone quoted in the *New York Times* recently referred to the Bush tax cut as one in which “most of the benefits would be showered on the richest taxpayers.”

Keeping money that you yourself earned is called having benefits “showered” on you! By this reasoning, anyone who has the power to take something from you and doesn’t take it all is “showering” benefits on you. Anyone who has a gun and doesn’t use it to kill you is showering life itself on you.

Big spenders and big taxers never want to face the fact that wealth is not created by government, but by the people that the government taxes. Moreover, these are seldom simply people who “happen to have money,” as the phrase goes.

Most people who have money usually got it by providing other people with something that they wanted badly enough to pay for it. This is never called “public service” by the politically correct. Selling people what they want, in order to get what you want, is called “greed.”

It’s public service when you decide what other people “really” need and impose it at the taxpayers’ expense. It’s public service when you create hoops for other people to jump through—rules to follow, forms to fill out, lives to be lived as you prescribe—all for their own good.

Given this mindset, you can see why letting people keep more of the money they earn is considered to be indulging

them with benefits that the government "showers" on them. It is like subsidizing sin.

Anyone who has read *The Federalist Papers*—or who has read between the lines in the Constitution—knows that the people who founded this country had a great fear of government's power over individuals. They knew that there are always busybodies who cannot be happy unless they are telling other people what to do and forcing them to do it.

Property rights were put into the Constitution to keep politicians on a short leash, instead of letting them roam at will over the land and treat the wealth created by others as something for them to dispense as largess and use to buy votes.

People had the right to bear arms, so that they could defend themselves, instead of letting their safety and the safety of their families be yet another playground for bright ideas about crime and criminals, such as unsubstantiated theories about "root causes" and pious hopes about "rehabilitation" of criminals and "prevention" of crime.

It is not just a question about the rightness or wrongness of particular notions in isolation, but the unending proliferation of these notions. Every little wonderful bright idea has its rationale. It will make us safer, or smarter, or more sensitive. Above all, it will make us more like the anointed who have thought up these grandiose notions.

To those with this self-flattering mindset, if they think it is more important to look out for caribou than to look out for people, then you must be a slob if you think people are more important than caribou.

When you add up all the requirements, restrictions, re-education, and re-diculous ideas dreamed by all the 57 varieties of busybodies, you end up hemmed in like a rat backed into a corner.

Literally from the moment you wake up in the morning and take a shower (with a government-prescribed rate of water flow) to the time you flush the toilet (also with a government-prescribed water flow rate) for the last time before going to bed, your life has been laid out for you.

An Old "New Vision"

Despite the fanfare of a televised speech at the National Press Club in Washington, a very old and hackneyed set of proposals was unveiled as a "new vision" for the creation of "affordable housing." The speech was by Richard Ravitch, co-chairman with former Congresswoman Susan Molinari of what is called the Millennial Housing Commission, a group making recommendations to Congress on housing policy.

These two members of the New York political establishment produced the kinds of proposals that such people have been turning out for years. "Affordable housing" for them means government-subsidized housing, and their report essentially spells out innumerable schemes by which the taxpayers can pick up part or all of the tab for tenants or home buyers.

Contrary to this political report, a recent economic and statistical analysis by Professors Edward L. Glaeser of Harvard and Joseph E. Gyourko of the Wharton School of Business concludes: "America is not facing a nationwide affordable housing crisis." There are astronomical housing prices in particular places for reasons peculiar to those places. The principal reason is the price of land.

"In large areas of the country," they find, "housing costs are quite close to the cost of new construction." These areas "represent the bulk of American housing" and they are areas where "land is quite cheap."

In high-price areas, "housing is expensive because of artificial limits on construction created by the regulation of

new housing." In other words, the government—which is depicted by Molinari and Ravitch as the savior of those seeking "affordable housing"—is in fact the very reason why housing is so unaffordable in some places, according to scholars who have actually analyzed the hard data.

What kinds of differences in housing prices are we talking about? The average home price nationwide is about $150,000 but it is $500,000 in the area extending from San Francisco to Silicon Valley, about 30 miles south of the city. Nor is this price difference due to grander homes in California. Very ordinary homes just have grand prices.

You can in fact buy magnificent homes in some parts of the country for less than rather nondescript houses in pricier California communities. A recent issue of the *Wall Street Journal* had an advertisement for a 4 bedroom, 6 bath home, with 4,370 square feet of space and "a screen-enclosed pool/spa," located adjacent to a golf course and country club, for $550,000. It was in Leesburg, Florida.

Meanwhile, in Palo Alto, California, two houses were advertised at nearly double that price—$1,095,000 each—and neither house had as much as 1,500 square feet of space. Nor were they located anywhere other than on an ordinary city street, and no swimming pool was mentioned in either ad.

Many things go into determining the price of housing, both homes and apartments. But, after taking numerous factors into consideration, the Harvard and Wharton professors found that the key factor was the cost of the land on which the housing was built.

Their statistical analysis indicates that a home on a quarter-acre lot in Chicago is likely to sell for about $140,000 more than its construction costs. In San Diego it sells for $285,000 more than construction costs, in New York

City $350,000 more and in San Francisco nearly $700,000 more than construction costs.

"Only in particular areas, especially New York City and California, do housing prices diverge substantially from the costs of new construction," according to the study. Why the astronomical housing prices in some places? Strict zoning laws "are highly correlated with high prices," Glaeser and Gyourko find.

Long delays in getting permits to build are major factors in high housing prices. Millions of dollars can be tied up while bureaucrats dawdle and environmentalists carp. Indeed, delay is one of the chief weapons of environmental extremists who don't want anything built, and who know that delays cost developers a bundle. In the end, that ends up costing home buyers and apartment tenants a bundle.

More government is not the solution. Big, intrusive government is what creates the problem.

Third World Sweatshops

"Low-Wage Costa Ricans Make Baseballs for Millionaires."

That was the headline on one of those *New York Times* "news" stories that continued its recent tradition of editorials disguised as news. The headline said it all but the story ran on and on anyway, with details and quotes that added nothing to the familiar story that Third World workers don't earn nearly as much money as most Americans, even when they work for rich American companies.

Perhaps the best refutation of the implied message of this "news" story also appeared in the *New York Times*, in a frankly labeled op-ed piece by the paper's own Nicholas D. Kristof. Writing from Cambodia, Kristof reported: "Here in Cambodia factory jobs are in such demand that workers usually have to bribe a factory insider with a month's salary just to get hired."

The workers in Cambodia receive even lower wages than those in Costa Rica. But the difference is that the report from Cambodia spelled out what the local workers' alternatives were and how anxious they are to get the jobs denounced by intellectuals and politicians who live in affluent countries.

"Nhep Chanda averages 75 cents a day for her efforts. For her, the idea of being exploited in a garment factory—working only six days a week, inside instead of in the broiling sun, for up to $2 a day—is a dream."

By and large, multinational companies pay about double the local wages in Third World countries. As for

"exploitation," the vast majority of American investment overseas goes to high-wage countries, not low-wage countries.

Why are these international capitalists passing up supposedly golden opportunities for exploitation? Because they understand economics better than most intellectuals and politicians, who are content to score cheap points, without worrying about the logic or the consequences.

If outsiders succeed in pressuring or forcing multinational companies to pay higher wages, that will make it more economical for those companies to relocate many of their operations to more affluent countries, where the higher productivity of the workers there will cover the higher wage rates.

Net result: Third World workers will be worse off for having lost better jobs than most of them can find locally. Meanwhile, Western intellectuals and politicians will be congratulating themselves for having ended exploitation.

At the heart of all this is a confusion between the vagaries of fate and the sins of man. All of us wish that workers in Costa Rica and Cambodia, not to mention other poor countries, were able to earn higher pay and live better lives. But wishing will not make it so and causing them to lose their jobs will not help.

It is tragic that people in some societies simply have not had the same opportunities to develop more valuable skills and that those societies have not had economic and political systems that promote material progress comparable to that in most Western countries.

Low pay is one symptom of that fact—and changing the symptom will not change the underlying problem, which is that the people in such countries got a raw deal from fate, history, geography or culture. These are the vagaries of fate

but the left tries to turn this into the sins of man by blaming Western employers, who are in fact providing these workers with better options than they had before.

The left-wing spin is that the poor are poor because the rich are rich. That opens the door for a big power-grab by the left in the name of "fairness" or "social justice" or whatever other rhetoric resonates with the unwary and the ill-informed.

Unfortunately, the left's theory does not also resonate with the facts. Whether domestically or internationally, investors looking for the highest rates of return usually steer clear of poor areas and put their money where there are people with more advanced skills, living in more prosperous countries, even if businesses have to pay much higher salaries in such places.

The United States, for example, has long invested more in Canada than in all of poverty-stricken sub-Saharan Africa, where wage rates are a fraction of Canadian wage rates. If the facts mattered—and if the poor really mattered to their supposed saviors—the implications of that would have been understood long ago.

Third World Sweatshops: Part II

Those who vent their moral indignation over low pay for Third World workers employed by multinational companies ignore the plain fact that these workers' employers are usually supplying them with better opportunities than they had before, while those who are morally indignant on their behalf are providing them with nothing.

Some of the more rational among the indignant crusaders for "social justice" may concede that the employers are usually offering better pay than Third World workers would have had otherwise. But they see no reason why wealthy corporations should not pay wages more like the wages paid in affluent countries.

There are at least two reasons why not—one economic and one moral.

The economic reason is that output per man-hour in Third World countries is usually some fraction of what it is in Western industrial nations such as the United States. Pay rates raised without regard to productivity are a virtual guarantee of unemployment, whether it is done in the name of ending "exploitation" in the Third World or providing "a living wage" in the United States.

Most modern industrial nations have minimum wage laws but those with higher minimum wage rates or additional mandated workers' benefits tend to have higher unemployment rates.

Germany, for example, has perhaps the most employer-provided benefits mandated by government. These benefits

include such huge severance pay that firing anyone is likely to be uneconomical. The costs of these benefits have been estimated as roughly double those of employer-provided benefits in the United States.

If you think that is great for the workers, remember that there is no free lunch, for workers or anybody else. The high cost of labor and the difficulties of firing anyone mean that employers are reluctant to hire, even when times are booming.

It is often cheaper to expand output by using more labor-saving machines, or to work the existing workforce overtime, rather than hire more employees. While Americans become alarmed when unemployment reaches 6 percent, double-digit unemployment has been common in Germany.

At one time, neither Switzerland nor Hong Kong had minimum wage laws. Last year, *The Economist* magazine reported: "Switzerland's unemployment rate neared a five-year high of 3.9% in February." For most countries that have minimum wage laws, a 3.9 % unemployment rate would be a five-year low, if not wholly unattainable.

Back when Hong Kong was a British colony and its wage rates were set by supply and demand, the *Wall Street Journal* reported that its unemployment rate was less than 2 percent. Then, after China took over Hong Kong and mandated various worker benefits—which add to labor costs, the same as higher wage rates—Hong Kong's unemployment rate went over 8%.

This was not high by European standards but it was unprecedented for Hong Kong. There is no free lunch in any part of the world.

Why cannot rich multinational corporations simply

absorb the losses of paying Third World workers more than their productivity is worth? Why shouldn't they?

First of all, multi-billion-dollar corporations are seldom owned by multi-billionaires. They are usually owned by thousands, if not millions, of stockholders, most of whom are nowhere close to being billionaires. Some may be teachers, nurses, mechanics, clerks and others who own stock indirectly by paying into pension funds that buy these stocks.

Indeed, the average incomes of all the stockholders—direct and indirect—may be no greater than the average incomes of those intellectuals, politicians, and others who want them to absorb the costs of higher pay in the Third World.

But if teachers, nurses, mechanics, and clerks are supposed to accept less money to live on in their retirement years, why shouldn't similar donations to the Third World come from reporters for the *New York Times* or Ivy League professors, movie stars or others who are morally indignant?

Or is this just one of many things that the morally indignant think is worth having others pay for, but not worth enough to pay for themselves?

Privatizing Social Security

Would you sign a contract that enabled the other party to change the terms of that contract at will, while you could neither stop him nor make any changes of your own? Probably not. Yet that is exactly what happens when you pay money into Social Security.

No matter what you were promised or at what age you were supposed to get it, the government can always pass a new law that changes all of that. But you still have to pay into the system.

A private annuity plan run by an insurance company is legally required to pay you what was promised, when it was promised, and to maintain assets sufficient to redeem its promises.

Why are liberals against letting people put part of their Social Security payments into private investments?

Risk is one of their arguments. Al Gore incessantly repeated the phrase "a risky scheme" during the 2000 election campaign and risk still seems to be the big objection to letting people put their own money where they want.

Some liberals may actually believe that politicians know what is best for you better than you know yourself. That is, after all, the philosophy behind many other government programs.

Another reason for liberal opposition to private investment of Social Security payments is that it deprives them of control of billions of dollars that they have been

spending from the Social Security trust fund for years. They can buy a lot of votes with all sorts of giveaway programs, financed by money taken from Social Security.

As for the risk of making private investments, that might be a real concern if people were putting their money into commodity speculation or other volatile markets. Most people have better sense and privatization could limit where Social Security premiums could be invested.

Although the stock market bounces up and down from day to day, people are not investing today in order to retire next week. They begin paying Social Security premiums when they first get a job and they retire 40 or 50 years later.

Stocks are far less risky in the long run than they are in the short run because the ups and downs balance out over a long period of time. It is virtually impossible to find any 40-year or 50-year period in which the stock market has not paid a higher rate of return on your money than you get from Social Security.

You may get a slightly lower pension if you retire when the stock market is down than if you retire when the stock market is up—but even the lower pension is going to be more than you would get paying the same amount of money into Social Security.

Risks can be minimized in many ways. There are some mutual funds that simply buy a mixture of the stocks that make up the Dow Jones average (or Standard & Poor's), so that their clients will have the kind of return on their investments that the stock market as a whole has. They don't make a killing but they don't get killed either.

How did Social Security get into its present mess in the first place? Because politicians made it the "risky scheme" that they now claim privatization would be.

The same political expediency which caused Social Security to be called "insurance," in order to get public support, guaranteed that it would be nothing of the sort. Unlike an insurance company, Social Security has never had enough money to pay for all the pensions it promised.

Privatizing Social Security: Part II

Current Senate hearings on “mandatory retirement” may have more than a little relevance to the huge question of how to “save” Social Security. Unfortunately, there is far too little attention being paid to the question of why Social Security requires saving in the first place.

The key problem with Social Security is that it has never taken in enough to cover all the pensions it promised to pay. Promises win votes but collecting enough money to pay for those promises does not.

Should we be surprised that politicians take the easy way out by promising a lot and leaving it to future politicians to figure out how to pay for what was promised—or how to disguise their welshing on those promises?

We hear a lot about how changing demographics have created a problem for Social Security, since people now live longer, changing the ratio of people paying into the system compared to people getting money out of the system.

But you don’t see insurance companies wringing their hands about how they can’t pay out the pensions they promised when they sold annuities.

That is because each generation’s premiums were invested to create additional future wealth to pay for that generation’s pensions, regardless of whether the next generation is large or small. The big difference between private annuities and Social Security is that private investment creates future wealth for the country as a whole and Social Security does not.

More total wealth through privatization offers some hope of solving the problem of inadequate wealth to pay the pensions that Social Security promised to the baby boomers. Otherwise, the government will have to welsh on its promises, because the amount of tax increase needed exceeds what is politically feasible.

That is where so-called "mandatory retirement" comes in. That concept is as fraudulent as calling Social Security "insurance" when it has in fact always been a pyramid scheme, where each generation depends on the next generation to pay its pensions.

There has never been any such thing as mandatory retirement. By contract or custom, employers have had a general practice of no longer employing people after they reached a certain age. But there has been no requirement that those people retire. Many—if not most—have in fact continued working elsewhere, often while drawing a pension.

By passing laws forbidding "mandatory retirement," the government reduced the number of older people who would otherwise have retired and begun drawing Social Security pensions. This self-serving transfer of billions of dollars in financial liabilities from the government to private employers was thus presented as a virtuous rescue of older workers from unfair discrimination.

Never mind that the Constitution forbids the government from changing the terms of private contracts. Never mind that younger workers find their upward path blocked by older workers whom the employer cannot get rid of without legal hassles.

All of this is washed down with lofty rhetoric about how age need not mean a decline in efficiency, about how our senior citizens still have much to contribute, about how

older Americans are "breaking the silver ceiling," in the words of Senator John Breaux at recent Senate hearings.

In other words, the assumption is that individual employers looking directly at individual workers, whose work they are already familiar with, are not smart enough to make as good a judgment as distant politicians talking in generalities.

Even in the past, when a particular employer's obligation to employ workers expired at a certain age, there was nothing to prevent a mutual agreement for particular workers to continue working past that age, when the employer saw that the particular worker's productivity made this advisable and the worker wanted to continue on.

In short, neither Senate hearings nor "expert" witnesses were necessary. Much of this is a charade to allow the government to raise or eliminate remaining retirement ages, in order to escape from the impossible situation that politicians created when they designed Social Security as a pyramid scheme.

“Living Wage” Kills Jobs

Give credit where credit is due. The political left is great with words. Conservatives have never been able to come up with such seductive phrases as the left mass produces.

While conservatives may talk about a need for “judicial restraint,” liberals cry out for “social justice.” If someone asks you why they should be in favor of judicial restraint, you have got to sit them down and go into a long explanation about Constitutional government and its implications and prerequisites.

But “social justice”? No explanation needed. No definition. No facts. Everybody is for it. Do you want social injustice?

The latest verbal coup of the left is the phrase “a living wage.” Who is so hard-hearted or mean-spirited that they do not want people to be able to make enough money to live on?

Unfortunately, the effort and talent that the left puts into coining great phrases is seldom put into analysis or evidence. The living wage campaign shows that as well.

Just what is a living wage? It usually means enough income to support a family of four on one paycheck. This idea has swept through various communities, churches and academic institutions.

Facts have never yet caught up with this idea and analysis is lagging even farther behind.

First of all, do most low-wage workers actually have a family of four to support on one paycheck? According to a

recent study by the Cato Institute, fewer than one out of five minimum wage workers has a family to support. Workers earning the minimum wage are usually young people just starting out.

So the premise is false from the beginning. But it is still a great phrase, and rhetoric is apparently what matters, considering all the politicians, academics and church groups who are stampeding all and sundry toward the living wage concept.

What the so-called living wage really amounts to is simply a local minimum wage policy requiring much higher pay rates than the federal minimum wage law. It's another name for a higher minimum wage.

Since there have been minimum wage laws for generations, not only in the United States, but in other countries around the world, you might think that we would want to look at what actually happens when such laws are enacted, as distinguished from what was hoped would happen.

Neither the advocates of this new minimum wage policy nor the media—much less politicians—show any interest whatsoever in facts about the consequences of minimum wage laws.

Most studies of minimum wage laws in countries around the world show that fewer people are employed at artificially higher wage rates. Moreover, unemployment falls disproportionately on lower skilled workers, younger and inexperienced workers, and workers from minority groups.

The new Cato Institute study cites data showing job losses in places where living wage laws have been imposed. This should not be the least bit surprising. Making anything more expensive almost invariably leads to fewer purchases. That includes labor.

While trying to solve a non-problem—supporting families that don't exist, in most cases—the living wage crusade creates a very real problem of low-skilled workers having trouble finding a job at all.

People in minimum wage jobs do not stay at the minimum wage permanently. Their pay increases as they accumulate experience and develop skills. It increases an average of 30 percent in just their first year of employment, according to the Cato Institute study. Other studies show that low-income people become average-income people in a few years and high-income people later in life.

All of this depends on their having a job in the first place, however. But the living wage kills jobs.

As imposed wage rates rise, so do job qualifications, so that less skilled or less experienced workers become "unemployable." Think about it. Every one of us would be "unemployable" if our pay rates were raised high enough.

I would love to believe that the Hoover Institution would continue to hire me if I demanded double my current salary. But you notice that I don't make any such demand. Third parties need to stop making such demands for other people. It is more important for people to have jobs than for busybodies to feel noble.

A Happy Birthday?

Only a few economic historians are likely to notice that June 17th marks the 75th anniversary of the signing of the Hawley-Smoot tariff bill, and even economic historians are unlikely to be nostalgic about that disastrous legislation.

Why not leave the bad news of the past in the past? After all, we have our own problems today.

Unfortunately, the same kind of thinking that led to the Hawley-Smoot tariffs is still alive and well—and in full youthful vigor—in the media and in politics today.

At the heart of past and present arguments for restricting imports that compete with American-made products is the notion that these imports will cost Americans their jobs. That fear was even more understandable back in 1930, when the Great Depression was getting under way and unemployment was at 9 percent.

The Hawley-Smoot bill raised American tariffs to record high levels, in an attempt to protect existing jobs and in hopes of helping the unemployed find work producing things that the United States had previously been importing from other countries. Many businesses were in favor of the new tariffs, hoping to retain or expand their markets, and farmers were especially big supporters of the Hawley-Smoot tariffs.

Who was opposed?

Most of the leading economists in the country were opposed. A front-page headline in the *New York Times* of May 5, 1930 read: “1,028 Economists Ask Hoover to Veto

Pending Tariff Bill." Those signing this public appeal against the new tariffs included many of the top economists of the day—25 professors of economics at Harvard, 26 at the University of Chicago, and 28 at Columbia.

But, to a politician, what do 1,028 votes matter in a country the size of the United States? Congressman Hawley and Senator Smoot both ignored them, as did President Herbert Hoover, who signed the legislation into law the next month.

The economic reasons for not restricting international trade then were the same as they are today. The only difference is that what happened then gives us a free home demonstration of what can be expected to happen if we go that route again.

The economists' appeal spelled it out: "The proponents of higher tariffs claim that the increase in rates will give work to the idle. This is not true. We cannot increase employment by restricting trade."

If 9 percent unemployment was troublesome in 1930, when the Hawley-Smoot tariff was passed, it was nothing compared to the 16 percent unemployment the next year and the 25 percent unemployment two years after that. The annual rate of unemployment in the United States never got back down to the 9 percent level again during the entire decade of the 1930s.

American industry as a whole operated at a loss for two consecutive years. Farmers, who had given strong support to the Hawley-Smoot tariffs, saw their own exports cut by two-thirds as countries around the world retaliated against American tariffs by restricting their imports of American industrial and agricultural products.

The economists' appeal had warned of "retaliatory tariffs" that would set off a wave of international trade

restrictions which would hurt all countries economically. After everything that these economists had warned about happened, tariffs began to be reduced but throughout the 1930s they remained above where they were before the Hawley-Smoot tariffs—and so did unemployment.

Many factors, of course, affected the Great Depression of the 1930s. But later economists looking back have seen the Hawley-Smoot tariff as one of the factors needlessly prolonging the economic disaster.

How much wiser are we today? Not much, if at all.

Talk about import restrictions or complaints about "outsourcing" today proceed with the same mindless disregard of what other nations are doing and will do.

People who throw around statistics about how many American jobs have been outsourced don't even mention how many Americans have jobs that have been outsourced from other countries, much less how many Americans will lose those jobs if we start a new round of international trade restrictions.