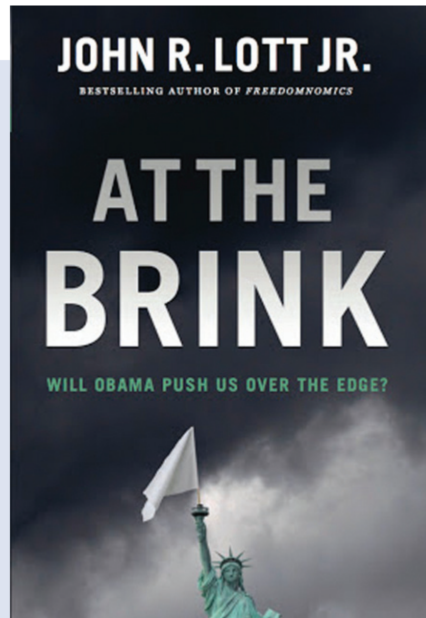
THE FREE MARKET

THE MONTHLY PUBLICATION OF THE LUDWIG VON MISES INSTITUTE

BOOK Review

Obamacare and Other Disasters



At the Brink: Will Obama Push Us Over the Edge?
by John R. Lott, Jr.
Regnery, 2013, xvi + 320 pp.

REVIEWED BY DAVID GORDON

John Lott is best known to the public for his outstanding analysis of gun control legislation, but his research as an economist extends far beyond that topic; and he here gives us a devastating account that covers the full range of the Obama administration's economic policy. Readers stirred to anger by the simpleminded statism of Paul Krugman will be delighted by Lott's demolition of several of his claims. To those who urge that high taxes on the wealthy discourage investment, to the disadvantage of us all, Krugman often recalls the palmary era of the 1950s. Did we not then see very high tax rates together with high rates of economic growth? "In the 1950s incomes in the top bracket faced a marginal tax rate of 91, that's right, 91 percent, while taxes on corporate profits were twice as large, relative to national income, as in recent years." (p. 200, quoting Krugman)

Lott is a master of economics statistics, and he quickly exposes a fatal flaw in Krugman's argument. Capital moves much more quickly nowadays than in the 1950s; and if tax rates abroad fall significantly below the American exactions, investors will readily shift their funds to the more favorable foreign conditions. "But the world has changed substantially since the 1950s and even the 1960s. One major change has been increased international competition between countries over taxes. For investors . . .

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in international capital markets looking for the highest return, even a small difference in tax rates can determine where their money goes." (p. 201)

If Krugman views high taxes as good, he likes government spending even better. Will not the multiplier, he asks, readily restore to prosperity a depressed economy? Government spending stimulates the economy more than tax cuts to individuals do, Keynesians like Krugman allege, because people siphon off some of the money they gain from tax cuts into savings. The government can more efficiently spend us into prosperity.

Lott rejects this dubious doctrine, on grounds both theoretical and empirical. "Barring true, concrete destruction, resources in the economy do not just disappear. Savings is not a black hole but always corresponds to real resources, somewhere in the economy, in some form or other. . . . Keynesians conveniently forget that the resources used to finance the additional government spending have to come from somewhere, either through taxes or through borrowing. If through taxes, taxpayers have less to spend. If through borrowing, the government absorbs resources that could have been invested in private firms."(pp. 89–90)

Krugman would no doubt respond to Lott that the facts bear him out: austerity programs prolong economic ills and extensive government spending is needed to end a prolonged depression. Once more Lott is ready for his adversary. "My regressions find that increasing last year's government expenditures (as a percentage of GDP) by 1 percent reduces per capita GDP by $184. Such an increase in spending reduces the figure for working-age population employed by about 0.5 percent. The bottom line should be clear. Governments were unable to spend their way out of their problems. . . . 'Austerity' may be a dirty word to some politicians, but the countries that followed Keynesian policy have assumed a triad of woes: poor GDP growth, poor job growth, and massive debt." (p. 102)

Lott does not confine his attention to general guidelines for economic policy but discusses specific programs as well. Of these Obamacare is the most controversial, and Lott makes clear from his chapter's title what he thinks of it: "The Looming Obamacare Disaster."

Strong words, no doubt; but Lott makes good his claim. For one thing, the program cannot succeed without large increases in the number of people who purchase medical insurance: that is the point of the controversial "individual mandate." But the mandate is highly unlikely to achieve what its proponents hope for it. "The Congressional Budget Office estimates that in 2015, Obamacare will cause twenty million people to purchase insurance. That number is crucial to its cost estimate because fines and insurance premiums are supposed to cover the program's costs. That number is also completely unrealistic. Higher insurance premiums will cause more people to drop their insurance. The ranks of the uninsured may actually increase. . . . For all but the highest earners, then, it will make sense to skip the insurance and pay the fine. Americans will be able to save thousands of dollars every year by waiting to buy insurance until they are seriously ill or pregnant. . . . And more and more will do so as the price of the 'same' insurance increases." (pp. 13–14)

Defenders of Obamacare maintain that regardless of the program's drawbacks, drastic action was needed to cope with a crisis in America's health care. Lott's response will surprise many, but it is based on his customary careful survey of the data. The supposed "crisis" does not exist. "Polls show that about 90 percent of Americans are happy with their health care . . . even the vast majority of uninsured Americans are happy with their care." (p. 29)

One would expect a book by John Lott to say something informative about gun control, and our author does not disappoint us. It transpires that he met President Obama when both of them served on the

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Easy Money, The Fed, & Latin America

An Interview with Nicolás Cachanosky

Nicolás Cachanosky, a native of Argentina who recently completed his Ph.D. under Mises Institute Associated Scholar Ben Powell, spoke with us last month about his research on Latin American monetary policy and his new teaching position.

TFM: What led to your initial interest in the Austrian School?

NC: My initial interest in the Austrian School came from my father, who completed his Ph.D. under the supervision of Hans Sennholz on "The Pitfalls of Mathematical Analysis in Economics."

My interest in economics was sparked in mid–high school and my father gave me books by Hazlitt, Hayek, Mises, and Rothbard. The summer I graduated he gave me my first copy of *Human Action.* I read it for the first time during the summer before going into the Pontificia Universidad Católica Argentina to do my Licentiate in Economics.

When I finished my licentiate studies I went for my Master of Economics and Political Science to ESEADE, the free-market/Austrian graduate institution in Argentina. After two years studying with Martin Krause, Gabriel Zanotti (who was my advisor), and other faculty, I joined Suffolk University and wrote my dissertation under Ben Powell.

Now I'm moving to Metropolitan State University of Denver where I'll be teaching macroeconomics and money. I'm looking forward to continuing the work of [Mises Institute Senior Fellow and retiring MSUD faculty member] John Cochran and working next to [Mises Institute Associated Scholar] Alex Padilla in his Explore Freedom Project.

TFM: Austrians have often looked at how central banks cause the boom-bust cycle domestically. But in recent research, you're looking at how the Federal Reserve has contributed to unsustainable booms in Latin America.

NC: If we date the first treatment of Austrian Business Cycle Theory (ABCT) to Mises's *Theory of Money and Credit* (1912), then a hundred years has gone by. It is to be expected that some of the empirical assumptions that Mises and Hayek were using at the beginning of the century need revision.

The monetary institution in place is one of those assumptions. The world is not under the gold standard anymore, but under fiat currencies. This means two things. First, because international interest rates are defined by major central banks, major economies have an effect on small open economies.

Second, with fiat currencies we have more than one currency. This means that there is a new price to take into consideration, the foreign exchange rate. If we have a new price, then the market distortions produced by a major central bank are channeled through two variables, not one. Through the interest rate, as is usual in the canonical version of the ABCT, and through the exchange rate, which means a change in the relative price of nontradables to tradables.

For instance, could it be that part of the export-led growth of China is an unsustainable boom that was driven by the Federal Reserve's loose monetary policy plus China's central bank's decision to peg their currency to the U.S. dollar?

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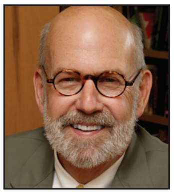
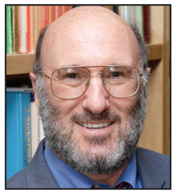
Mises Scholar and Alumni Notes

• **Ron Paul,** charter member and long-time supporter of of the Mises Institute, founded the Ron Paul Institute for Peace and Prosperity (RPI) in April. Mises Institute President **Lew Rockwell** serves on its advisory board, while Mises Institute scholars **Walter Block, Robert Higgs,** and **Butler Shaffer** all serve on the academic board.

• **Mises Institute Senior Fellow Mark Thornton** was interviewed March 18 by Mark Carbonaro on Fox News Radio on the bank holidays in Cyprus, and was interviewed by Mises Institute Senior Fellow Tom Woods on the Peter Schiff show on February 7. *The Wall Street Journal* published a letter to the editor by Dr. Thornton noting that French economic woes caused by socialism could be solved by adopting the recommendations of French economist Frédéric Bastiat.

• **Mises Institute Executive Director Peter Klein** spoke as part of a February 7 panel discussion titled "Dr. Israel M. Kirzner's Contributions to Market Process Theory and Entrepreneurship Studies" at the Mercatus Center at George Mason University; Dr. Klein also delivered the plenary address "Entrepreneurial Judgment: Private and Public" at the 2013 Utah–BYU Winter Strategy Conference on March 8. Dr. Klein's recent articles include: "Capabilities and Strategic Entrepreneurship in Public Organizations" (with Joseph T. Mahoney, Anita M. McGahan, and Christos N. Pitelis), in *Strategic Entrepreneurship Journal*; "Private Equity and Entrepreneurial Governance: Time for a Balanced View" (with John Chapman and Mario Mondelli), in the February 2013 issue of *Academy of Management Perspectives*; "Entrepreneurship, Entrepreneurial Governance, and Economic Organization" (with Nicolai J. Foss), in *Handbook of Economic Organization* edited by Anna Grandori.

• **Mises Institute Senior Fellow Thomas Woods** delivered a series of three talks to the Iowa State GOP on April 13, and was the featured speaker at the State GOP's "Freedom on Tour" event. Dr. Woods spoke to an audience of 150 at the University of Dubuque covering economics, nullification, and foreign policy.

• **Mises Fellow Matthew McCaffrey** recently published the article "On the Theory of Entrepreneurial Incentives and Alertness" in the journal *Entrepreneurship Theory and Practice*. Also forthcoming from Mr. McCaffrey is "Conflicting Views of the Entrepreneur in Turn-of-the-Century Vienna" in the *History of Economics Review*.

• On April 15, *Bloomberg* reported on the Federal Reserve's interest payments on banks' excess cash reserves, and quoted **Mises Institute Associated Scholar David Howden**, who according to *Bloomberg*, "analyzed interest on reserve payments so far for the Ludwig von Mises Institute, named for an Austrian free-market economist and philosopher."

"Essentially the Fed paid the banks $4 billion last year, which is about $12 per American," Dr. Howden told *Bloomberg*. "If your bank called you up and said you have a new service fee of $12 because they screwed up in the crisis, you'd be livid, but that is basically what they are doing and no one knows about it."

• **Mises University Alumnus Anthony Gregory**'s new book *The Power of Habeas Corpus in America: From the King's Prerogative to the War on Terror* is now available from Cambridge University Press.

EASY MONEY
CONTINUED FROM PAGE 3

TFM: What are some specific areas where this has had the greatest impact?

NC: If you look at Latin America's countries you see that more roundabout (capital-intensive and forward-looking) industries are more sensitive to U.S. monetary policy than less roundabout industries. I don't think it is a coincidence that the two largest economic crises in Latin America in the last 60 years occurred after the two largest periods of loose monetary policy by the Fed: at the beginning of 1980, and in 2009, after the subprime crisis.

Industries like mining and quarrying, for example, are more sensitive to U.S. monetary policy than, say, real estate intermediation. The pattern predictions of the ABCT hold for Latin America and U.S. monetary policy.

TFM: Give us a glimpse into the banking sector in Latin America. Are central banks restrained right now, or are they, like the Bank of Japan and the Federal Reserve, engaging in monetary activism?

NC: It's hard to say because there's plenty of variation. What is important is what drives their activism. It is crucial whether a central bank is independent of the Treasury needs. Some central banks in Latin America, like those of Chile, Colombia, and Brazil have been gaining respect in recent times. Others, like the Argentinean and Venezuelan central banks are at the service of the government.

What central banks can't do is avoid the effects of activism by major central banks. When the Federal Reserve decided to lower their interest rates between 2002 and 2007, the central bank in these countries needed to re-evaluate policy under such circumstances. Latin American countries that usually have big economic sectors that depend on the export of commodities may very well feel compelled to expand their money supply and keep their exchange rates stable. In this sense, the activism of Latin American countries is dependent of the activism of major central banks.

TFM: Of course, American monetary policy is hardly the only challenge faced by Latin American economies. What are some other impediments to sustainable growth faced by the region?

NC: The underlying problem of the region in general is its anti-free-market ideology rooted in political populism, so well represented by Hugo Chavez and the Kirchners. The results of their policies are clear for anyone who wants to see them. Most economic problems ultimately depend on this cultural setting. Populism is a very dangerous road to take with very damaging and long lasting consequences.

TFM: Speaking broadly, are free-market ideas gaining traction in the region?

NC: It is not easy to say because some countries have become more prosperous and free, and others less prosperous and less free. Some countries like Argentina, Venezuela, Ecuador, and Bolivia show repressed economic and civil liberties. But other countries like Chile, Colombia, Perú, and Paraguay are doing much better.

Still, I remain confident that the outlook of the region will improve in the coming years, especially if the freest countries do not change their course. Countries like Argentina and Venezuela are showing strong manifestations in opposition to their current politicians in power. I can't say for sure that this is rooted in free-market ideas; it is, more likely, against the poor economic performance and the lack of freedom citizens feel every day without a clear connection to free-market institutions. However, this situation of civil protest can open the door for some of these countries to follow the Chilean example and get onto a more stable road of growth and development.

MISES SCHOLAR AND ALUMNI NOTES
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- The Mises Institute's 2013 Lawrence W. Fertig Prize in Austrian Economics was awarded to **Rothbard Graduate Seminar Alumna Laura Davidson** for her paper "Against Monetary Disequilibrium Theory and Fractional Reserve Free Banking." The article appeared in the Summer 2012 edition of *The Quarterly Journal of Austrian Economics*. The Fertig Prize is awarded to the author of a paper that best advances economic science in the Austrian tradition and includes a $1,000 prize.

- **Former Mises Fellow Maria Minniti** has been appointed Chair in Entrepreneurship & Public Policy at Syracuse University.

- **Mises University Alumnus Robert Müürsepp,** one of the founders of The Ludwig von Mises Institute of Estonia, recently released the short book *Tsitaadid Ludwig von Mises* (*Quotations by Ludwig von Mises*), a collection of Mises quotations in Estonian.

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OBAMACARE AND OTHER DISASTERS
CONTINUED FROM PAGE 2

law school faculty of the University of Chicago. "I first met him in 1996, shortly after my research on concealed handgun laws and crime had come to national attention. I introduced myself, and he responded, 'Oh, you are the gun guy.' 'Yes, I guess so,' I answered. 'I don't believe that people should be able to own guns,' Obama replied. I then suggested that it might be fun to have lunch and talk about that sometime. He simply grimaced and turned away, ending the conversation." (pp. 126–27)

Readers of Lott's carefully documented work will learn a great deal of vital information about the American economy, all of it unfortunately unknown to the president who turned away.

David Gordon is a Senior Fellow at the Mises Institute. He earned his Ph.D. in intellectual history from UCLA, and is the author of *An Introduction to Economic Reasoning; Resurrecting Marx: The Analytical Marxists on Exploitation, Freedom and Justice; The Philosophical Origins of Austrian Economics;* and *Critics of Marx.* Email: dgordon@mises.org

Misesians in Translation

Lessons for the Young Economist, by **Mises Institute Associated Scholar Robert Murphy,** is now available in Traditional Chinese.

Murray Rothbard's *What Has Government Done to Our Money?* is now available in Japanese, and was translated by **Tatsuya Iwakura**, who also translated *Liberty and Property* by Ludwig von Mises.

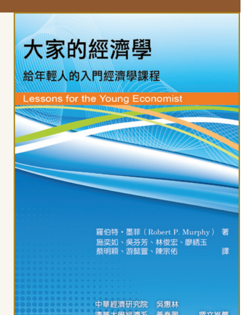
Economic Science and the Austrian Method, by **Mises Institute Senior Fellow Hans-Hermann Hoppe** was recently translated into Chinese by Hongchao Tan.

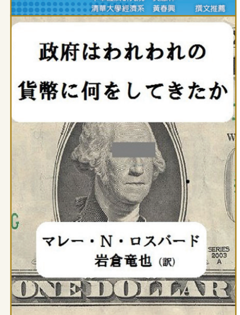
Thanks to the **Mises Institute of Brazil** and translator **Bruno Garschagen**, Hoppe's *A Theory of Socialism and Capitalism* is now available in Portuguese.

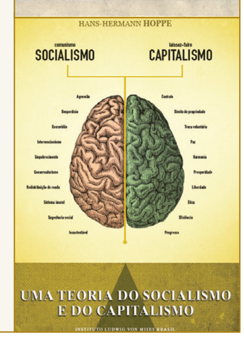
George Selgin's article "Praxeology and Understanding" was recently translated into Russian and published in the Russian-language publication *Issues of Methodology* (Voprosy Metodologii).

Also in the works is a Russian translation of **Mises Institute Senior Fellow Jörg Guido Hülsmann**'s biography of Ludwig von Mises, *Mises: The Last Knight of Liberalism*. Portions of the book may be downloaded at www.sotsium.ru.

The Instituto Juan Mariana has joined forces with **Universidad Francisco Marroquín** to produce new Spanish translations of Rothbard's works, beginning with *Power and Market* and *What Has Government Done To Our Money?* Forthcoming.







COMING EVENTS

Register online at mises.org or by phone at 800.636.4737.

June 10–14	ROTHBARD GRADUATE SEMINAR (Sponsored by Alice J. Lillie) • Mises Institute
July 21–27	MISES UNIVERSITY • Mises Institute • Featuring a new course on Constitutional Law with Judge Andrew P. Napolitano
October 4–5	SUPPORTERS SUMMIT • Jekyll Island, Georgia
November 8	SEMINAR FOR HIGH SCHOOL STUDENTS • Mises Institute
January 18, 2014	MISES CIRCLE IN HOUSTON (Sponsored by Christopher P. Condon, Terence Murphree, and T.J. & Ida Goss)
March 20–22, 2014	AUSTRIAN ECONOMICS RESEARCH CONFERENCE • Auburn, Alabama

Upcoming Mises Academy Online Courses. Register at http://academy.mises.org

April 23–May 27	Why Capitalism? Instructor: David Gordon
May 9–June 5	Lincoln: Founding Father of the American Leviathan State. Instructor: Thomas DiLorenzo
June 4–July 15	Broken Capitalism. Instructor: David Gordon

In Memoriam

We mourn the passing, but celebrate the lives and achievements, of these champions of liberty. Their far-sighted concern for the future of freedom will always inspire us:

Dr. William Peterson, generous friend of the Mises Institute and 2005 recipient of the Schlarbaum Prize. Dr. Peterson's daughter Laura Bennett Peterson participated in a tribute to Dr. Peterson at the 2013 Austrian Economics Research Conference. Ms. Peterson concluded her remarks with the following:

> Dad lived by Mises's and this Institute's guiding principle, "*Tu ne cede malis sed contra audentior ito*": "Do not give in to evil but proceed ever more boldly against it." In Virgil's *Aeneid*, this was the Sybil's prophecy and exhortation to Aeneas. I note with some poignancy the response of Aeneas, whose father had died: "I beg of you but one thing: . . . may it be my lot to . . . look upon the face of my beloved father. You must show me the way . . . ."
>
> Dad left a legacy to this Institute because he trusted it to show the way, as he so ably did, to freedom. May his and your good work continue, and may he rest in the peace he so richly deserves.

Mr. Howard Phillips, charter member of the Mises Institute, three-time U.S. presidential candidate, and founding member of the Constitution Party.

Dr. Amanda Maxwell, long-time friend and supporter of the Mises Institute.

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