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Tuesday, January 22, 2008

Editorials

Posted on Tuesday, January 22, 2008

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Economic Laws Basically 'Codified Common Sense'

The Texas Public Policy Foundation has embarked on an ambitious project with a renowned economist to set out some simple, but very important principles.



With Dr. Arthur B. Laffer, the TPPF has launched the "Thinking Economically" series of papers that will help inform and influence public policy makers.

"Just like the laws of physics, economics laws are simply descriptions of reality," Laffer writes in "Violate at Your Own Risk: The Immutability of Economic Laws," the first paper in the series.

"Scarcity can be no more ignored than gravity," Laffer continues. "Policymakers who think they can determine the proper price of a good better than the market will create no less a disaster than the captain of an ocean liner who believes his engines will allow him to pay no heed to momentum."

The project hopes to provide a basic economic education for policymakers, the media, and the general public, the Foundation says. That's why the group has partnered with Laffer, a member of President Ronald Reagan's Economic Policy Advisory Board for both of his two terms.

Time magazine named Laffer as one of the "20th Century's Greatest Minds" for his invention of the Laffer Curve, which provided the impetus for the tax-cutting movement of the last three decades.

"As Dr. Laffer is quick to point out, economics is neither Republican nor Democrat, and policymakers from both parties have misunderstood economics with disastrous consequences," Foundation President Brooke Rollins says. "We hope that presenting these basic economics lessons will better inform the discussion on public policy and highlight the importance of truly 'thinking economically.'"

Laffer's lessons are clear and concise.

"Fundamental economic laws are really just codified common sense," Laffer explains. "It's surprising how much insight we can gain from carefully thinking through the implications of particular views on how the world works."

The Law of Demand is one example from Laffer's first paper in the series.

"As simple as the Law of Demand is, policymakers need to pay it heed," Laffer contends. "When well-meaning government programs subsidize health care or food purchases, for example, that lowers the out-of-pocket price from the point of view of the beneficiaries. Naturally, this means that people then demand more health care, child care, food, etc. What happens is that the government subsidies distort the pattern of production, as resources flow into areas that consumers do not value as highly as others."

There are ramifications to breaking a law - even an economic law.

"When people break the laws of the city or state where they live, they usually have to face consequences," Laffer says. "They may pay a fine or have to do community service. In more severe cases, they may have to spend time in jail. But there are those situations where criminals get away with breaking the law because the crime cannot be traced back to them. This is too often the case when it comes to attempts by policymakers to break economic laws. Of course, try as they may, they cannot be successful. Economic laws cannot be broken - only ignored. Thus these failed attempts leave a convoluted trail of unintended consequences harming people who don't understand what went wrong or who caused the problem."

For example, Congress has continued to subsidize ethanol production - and thus forced a rise in corn prices, which has led to higher prices for poultry, pork and eggs.

The most important lesson, however, is what Laffer concludes with.

"There are limits to what can be accomplished in the political realm," he said.

"Violate at Your Own Risk" is available for download from the Foundation's website, www.TexasPolicy.com.

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