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Students Who Get It!

By John Stossel

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I went to Princeton in 1969, where they taught me that government could solve the world's problems. Put the smartest people in a room, give them enough taxpayer money, and they will fix most everything. During those years, I heard nothing about an alternative.

How things have changed!

I recently spent time with several hundred college-aged people at a Students for Liberty conference in Washington, D.C. Here were hundreds of students who actually understand that government creates many of the problems, and freedom -- personal and economic liberty -- makes things better.

I appeared at the conference along with David Boaz of the Cato Institute. Here are some highlights.

Karina Zannat, a student at American University in Washington, D.C., said, "A lot of my professors seem to think that even when politicians spend money in seemingly wasteful ways, we should be OK with it because every dollar spent is one dollar that goes toward income for an American citizen."

This is a common canard known as the "broken window" fallacy. The 19th-century French free-market writer Frederic Bastiat exposed it with the story of a boy who breaks a shop window, prompting some townspeople to look at the bright side: fixing the window will stimulate economic activity in the town. The fallacy, of course, is that had the window not been broken, the shopkeeper would have spent the money in more productive ways.

People often commit this fallacy -- have a look at what's being written in the wake of Japan's tsunami.

Meg Patrick of George Mason University asked about the Austrian business cycle theory. How delightful to meet a student interested in that! This is Ludwig von Mises and F.A. Hayek's argument that when government inflates the money supply and holds down interest rates to create an economic boom, a bust, or recession, must follow because the prosperity is built on an artificial foundation.

Meg wanted to know if "the injection of fiscal stimulus into the economy (after the bust) disrupts the signals necessary to fix the current problem."

To which I replied: Sure does. The market is signaling that certain changes are needed, but stimulus spending interferes with those signals. If businesses are not allowed to fail, we don't get the market feedback we need.

David Boaz added: "If you get drunk, you have a hangover. I'm sure some of you have tried the theory: just keep drinking. But you can't keep drinking forever."

Ian Downie from the University of Virginia had a good question about spending: "Our congressional representatives have huge incentives to steal the wealth from the vast majority of the country and funnel it down to their constituents. What kind of systematic changes can we make to stop this perverse incentive machine?"

"The special interests are always there," Boaz said. "The challenge is to get the public interest -- the taxpayers -- to stick around after the election, to keep putting pressure on. And that is very difficult."

He went on to say we need constitutional limits on what government can do. We tried that, of course, but too many insiders have an incentive to interpret the limits so broadly that they are hardly limits at all. So government grows.

Grant Babcock, from the University of Pittsburgh, raised a good point: "If government grows in response to crises, what do we do? It seems like there is always another crisis on the horizon. It used to be international communism. Nowadays ... it's the threat of Islamist fundamentalism. ... Are we trapped?"

The media do keep inventing new crises. The global-warming crisis, the swine flu crisis, the pesticide crisis.

"The running-out-of-oil crisis," Boaz added.

Crisis is a friend of the state.

As Boaz pointed out, however, "sometimes there are crises that cause countries to go ... toward less government. New Zealand hit a crisis like that, and they actually reformed their economy. So there's at least the hope that the next crisis in the United States or Europe will cause people to say: 'This hasn't been working. We have to cut back.'"

After spending time with those students, I feel better about the future of America.

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