

Do You Care More than Paul Krugman Cares?

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At a conference at the Vatican I attended some years ago, Nobel laureate Gary Becker gave the opening speech. I found what he said quite remarkable:

The greatest beneficiaries of capitalism are those at the bottom of the income ladder. That's why I favor capitalism. Were that not the case, I would not be in favor of capitalism. Milton Friedman feels the same way.

I was so struck by this comment that I wrote it down and have kept it all these years. In general, people who are right of center do not tend to talk all that much about their concern for the poor. Or is it that they just get drowned out by all the bleeding heart noise on the left? In any event, the evidence for Becker's core observation is overwhelming.

What brings this to mind is Paul Krugman's latest attack on Paul Ryan:

In pushing for draconian cuts in Medicaid, food stamps and other programs that aid the needy, Mr. Ryan isn't just looking for ways to save money. He's also quite explicitly trying to make life harder for the poor — for their own good.

This is the same Paul Krugman who almost never has an unkind word to say about the people who really are keeping poor people poor. More on that below.

Given the hostility of Krugman and others on the left toward capitalism and freedom, it's worth a quick review of the bidding, as they say in bridge.

I think one of the reasons you see so much anger on the left — not charity, just anger — is that they have been proved wrong by history. Whereas the left might have had a plausible case for its positions in the early 20th century, by the time we reached the end of the century it was clear to the whole world that they were wrong about almost everything. They were wrong about communism. They were wrong about socialism. They were wrong about the welfare state. The only thing they got right was their belated opposition to National Socialism. But that had nothing to do with economics. That was just opposition to the racist version of National Socialism.

[Note: I'm not accusing Krugman of sympathizing with these regimes. But can anyone remember his directing toward these mass murderers even a scintilla of the scorn he routinely heaps on people who believe in liberty?]

Anyway, the left wasn't just wrong. They were terribly wrong. Many of the governments they favored or apologized for committed unspeakable horrors. About 174 million people were killed by their own governments in the last century. The vast majority of these genocide victims were killed by governments that pledged allegiance to the same leftwing rhetoric that has changed very little over the course of 150 years.

Bad ideas die slowly. Even today you can find students carrying copies of "Quotations from Chairman Mao" and sporting Che Guevara t-shirts. It's hard to know what to say to people who are infatuated with cold-blooded killers.

Shifting from horror to science, economists associated with the Fraser Institute and the Cato Institute have actually found a way to measure "economic freedom" and investigate what difference it makes in 141 countries around the world. This work has been in progress for several decades now and the evidence is stark. Economies that rely on private property, free markets and free trade, and avoid high taxes, regulation and inflation, grow more rapidly than those with less economic freedom. Higher growth leads to higher incomes. Among the nations in the top fifth of the economic freedom index in 2011, average income was almost 7 times as great as for those countries in the bottom 20 percent (per capita gross domestic product of \$31,501 versus \$4,545).

What about the effects on the poorest citizens? In the 2011 report, the average income of the poorest tenth of the population in the least free countries was around \$1,061. By contrast, the poorest tenth of the freest countries' populations earned about \$8,735. If you are poor, it pays to live where capitalism is less hobbled.

What about equality of incomes? As it turns out there is almost no global relationship between the distribution of income and the degree of economic freedom. But in a way, that's good news. It means that the rich don't get richer and the poor poorer under capitalism. Everybody becomes better off.

There are also non-economic benefits to living in a free society. Comparing the bottom fifth to the top fifth, more economic freedom adds about 20 years to life expectancy and lowers infant mortality to just over one-tenth of its level in the least free countries.

What about within the United States? Some years back the Council of Economic Advisers (CEA) calculated a "predicted poverty rate" based on economic growth alone. In other words, economic growth by itself lifts people out of poverty, even if nothing else is happening. The CEA results suggest that if there had never been a welfare state (no Aid to Families with Dependent Children, no food stamps, no Medicaid, etc.) the poverty rate would actually be lower today than it

actually is! This adds to a wealth of evidence that the welfare state is subsidizing poverty, not eliminating it.

I don't like to get into partisan politics, because, like Milton Friedman, I believe in ideas and not politicians. But The New York Times editorial page is becoming increasingly partisan. The unsigned editorials these days are almost indistinguishable from the Obama campaign's talking points. Far from being thoughtful, they are vehicles for White House propaganda. Many of Krugman's editorials read pretty much the same way.

So let's consider the two political parties. Think of Democrats as being primarily responsible for the structure of the welfare state (social insurance programs) and Republicans as being primarily responsible for tax policy (including the Earned Income Tax Credit [EITC] — the embodiment of Milton Friedman's negative income tax). Which policies have been better for poor people? If you buy the CEA analysis and the work of Charles Murray, George Gilder and a host of other scholars, the welfare state has led to more poverty, not less of it. On the other hand, almost every Republican tax change has made the tax code more progressive. That is, almost every time the Republicans change the tax law, the burden of the federal income tax is shifted from low-income people to high-income people! That's why almost half the population doesn't pay any income tax at all.

[As an aside, Democrats have been very reluctant to give money to poor people through means-tested social insurance programs. Whether it's food, housing, education or medical care, almost all the cash goes to a constituency that is definitely not poor. That's why it's hard to know how much anyone benefits from these programs. On the other hand, when the Republican-designed EITC delivers \$1 to a poor family, the family gets \$1 worth of benefit. Of course, the EITC may do other harm through its implicit high marginal tax rate, however.]

I'm not endorsing everything the Republicans have done. Rather, I simply note that under Republican policies we are likely to have less poverty.

All in all, the welfare state probably isn't the primary reason poor people are poor. The main obstacles to success are (1) bad schools and (2) barriers to good jobs in the labor market.

This gets us back to Krugman. What is the biggest challenge in making bad schools better? The teachers' unions. They are dedicated to the idea that the school system is foremost a jobs program and only secondarily a place for children to learn. Teachers' unions have steadfastly opposed almost every reform idea that has any promise whatsoever in every city and town throughout the country. As for barriers to entry into the labor market, who is the foremost backer of minimum wage laws, Davis Bacon Act restrictions, medieval-guild-type

occupational licensing laws and labor union monopolies everywhere? You guessed it: the labor unions themselves.

Yet who forms the backbone of the Democratic Party? The very same organizations that are most responsible for keeping poor people poor and closing off their opportunities to succeed in life. Further, their perverse political influence disproportionately affects minorities. That is one reason why the black teenage unemployment rate is almost 40% — double that of white teenagers! It is one of the reasons for the very large student achievement gap: black student test scores are 70% to 80% of the scores of white students.

If you are a regular reader of The New York Times editorial page, when is the last time you remember Paul Krugman excoriating teachers' unions the way he takes out after Paul Ryan or compares conservatives to Ebenezer Scrooge? When is the last time you remember Krugman criticizing unions at all? Krugman is not pro-poor people. He is pro-Democratic Party. His primary allegiance seems to be to politicians with a D after their name. Indeed, after an exhaustive review of all of Krugman's writings, Dan Klein concludes:

Krugman has almost never come out against extant government interventions, even ones that expert economists seem to agree are bad, and especially so for the poor.

As for my original question, do you care about those at the bottom of the income ladder more than Paul Krugman? The answer is probably yes.