

Sunday, September 27, 2009

LETTER TO EDITOR: Thinking like a libertarian

William H. Peterson quotes Adam Smith about the priority of consumption over production ("World peace through world trade," Opinion, Monday), but Smith was dreadfully wrong. The desire to consume is a given and also limitless. Production determines whether these desires can be met. It is what separates a developed economy from an underdeveloped one.

Production must be the center of policy because it not only provides goods and services but also generates the income for those who work so they can become consumers (and savers). We have before us the ruins of an economy that has for a generation been based on consumption funded by debt rather than on income from production.

On the issue of peaceful trade, Mr. Peterson repeatedly cites the Cato Institute, which often quotes the early 19th century writings of Frederic Bastiat. Bastiat argued, "Free trade means harmony of interests and peace between nations." His faith led him to say, "I shall not hesitate to vote for disarmament because I do not believe in invasions." This was an untenable outlook for someone who lived in France, but it was common among classical economists.

Mr. Peterson also cites Thomas J. Watson of IBM Corp. in the 1930s. As it turned out, IBM's considerable business with Nazi Germany did not advance peace.

America's second largest trading partner is China, a country whose foreign policy is at odds with the U.S. everywhere. Defense Secretary Robert M. Gates told a meeting of the Air Force Association on Sept. 16 that Beijing's "investments in cyber and anti-satellite warfare, anti-air and anti-ship weaponry, and ballistic missiles could threaten America's primary way to project power and help allies in the Pacific." America's massive trade deficit with China has given Beijing the means to make these investments in weapons aimed at Americans.

Great Britain and Germany engaged in considerable trade in the 20th century and yet also fought two world wars. When German growth surpassed that of England, the geopolitical

consequences dwarfed the prattle of economic theory. The proper role of trade is not as a substitute for policy, but as a tool of policy, as when France invested heavily in Russia before World War I to strengthen the capabilities of their alliance. Or when the British, belatedly, adopted an imperial preference tariff after World War I to pull its empire together as a more cohesive and productive unit. The United States had done the same thing by abolishing tariffs between states while maintaining protectionism against foreign rivals.

Mr. Peterson's ivory tower theories have been turned to hash time and again over the centuries. This is why he is a libertarian - and not a conservative who looks at the real world.

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