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Outside the box

By Richard W. Rahn

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Have you wondered why politicians frequently recommend policies that are destructive to economic growth? Or why cities with "rent control" end up having decrepit housing? Or why medical care costs rise much faster than inflation?

The answers to these and many other public policy questions can be found in Thomas Sowell's informative and entertaining new book, "Applied Economics." If I had chosen the title, I would have dropped "Applied Economics," which sounds boring (the book is not), and led with the subtitle "Thinking Beyond Stage One," which is the real theme of the book.

One characteristic of success is being able to think several steps ahead. A person who plays chess without this ability is destined for failure. The inability or unwillingness of policy-makers to think beyond stage one is why programs like socialized medicine invariably fail. As Mr. Sowell explains:

"Many of the unintended consequences of policies and programs would have been foreseeable from the outset if these processes had been analyzed in terms of incentives and constraints they created, instead of in terms of the desirability they proclaimed. Once we start thinking in terms of the chain of events set in motion by particular policies -- and following these events beyond stage one -- the world begins to look very different."

Politicians frequently are aware of consequences beyond stage one, but if they believe they will gain votes in the short run from a destructive policy they will often support it, provided the negative consequences of their actions come after the next election or, even better, on the next fellow's watch.

For instance, New York politicians frequently accused big corporations of being greedy and used this as a rationale for increasing corporate taxes. The consequence is that after several decades of such behavior, many corporations packed up and left for more hospitable locations, leaving New York with a diminished corporate tax base.

Mr. Sowell gives example after example of how the foolish policies of politicians have increased the common misery rather than the common good. His goal is not to make fun of politicians acting like politicians, but to explain how easily the foolishness could have

been both foreseen and avoided if the press and electorate had not been asleep at the switch.

As he notes: "Neither economics nor politics is just a matter of opinion and both require thinking beyond the immediate consequences of decisions to their long-term effects. Because so few politicians look beyond the next election, it is all the more important that the voters look ahead."

The slower everyone drives, the fewer traffic accidents there will be, so why don't we mandate that no one can drive more than five miles per hour? The answer, of course, is that time and convenience have value as well as safety. In the real world we make trade-offs, so we have come to a consensus that in some circumstances allowing people to drive 70 miles per hour is worth the risks.

In his chapter on risk, Mr. Sowell does a marvelous job explaining the concept of trade-offs, and how those who are activists for specific types of safety -- e.g., opposition to nuclear power -- often increase other and more serious risks -- coal mine accidents and air pollution.

Rich countries are much safer than poor countries. Countries become rich when they protect private-property rights, have a rule of law and do not oppress their citizens through excessive taxation and regulation. Mr. Sowell explains all of this in a way any reader can clearly understand, and can in turn explain to others.

The author has a well-deserved reputation as not only an outstanding economist, but one with the ability to make fundamental economic concepts both interesting and understandable to the non-economist, which is why his syndicated columns are so highly regarded.

He does not make the mistake, unlike Paul Krugman of the New York Times, of misstating facts and not thinking of the ultimate consequences for purely partisan political reasons.

If you are interested in honing your knowledge "to think beyond stage one," you will not go wrong by reading Mr. Sowell's new book.

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