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Really Bad Ideas

By Richard W. Rahn

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What do you think about people who keep promoting ideas that have been tried and have failed innumerable times over the last couple of thousands of years? I refer to members of the U.S. Congress — the same crowd whose foolish acts have given us the current economic mess — but their hubris never ends.

Price controls never work because they deny economic participants the necessary information to properly allocate scarce resources and motivate people to produce needed goods and services. The Roman Emperor Diocletian (fourth century B.C.) tried price controls with food grains, and they, of course, failed. President Nixon tried them, and economists now agree they laid the groundwork for the post-1973 decline in U.S. production workers' real wages.

President Jimmy Carter tried them, and the results were billions of wasted hours of people waiting in gas lines. Most recently, Hugo Chavez in Venezuela has imposed them on food prices, including chickens. The result, as you would expect, is a chicken shortage.

But here we go again. Reps. John Conyers Jr., Michigan Democrat, and Chris Cannon, Utah Republican, have just introduced a bill to have government officials set the prices credit card companies charge banks and ultimately merchants for "interchange fees." The many credit card companies, their bank clients and the millions of merchants who accept the cards have freely negotiated fees for decades, much as businesses negotiate prices with each other for goods and services.

The market is highly competitive, and there are literally thousands of different interchange fees, depending on the costs and benefits of servicing different merchants. Up to now, the free market model has worked very well, giving virtually all consumers a very wide range of cards and promotional benefits with the cards (e.g., frequent flyer miles, cash rebates, etc.), so each consumer and merchant can select those cards and features that are best for him or her. If this misguided, proposed law is passed, you can be sure consumers will end up having fewer choices of cards and benefits, prices of goods and services will be higher, and merchants will suffer decreased demand.

Self proclaimed socialist Sen. Bernie Sanders, Vermont Independent, and Sen. Dick Durbin, Illinois Democrat, are planning to introduce legislation that would force Florida tomato growers to pay higher wages to the tomato pickers (who now average \$12 per hour). The senators admit their proposal will increase the price of tomatoes for consumers as growers and retailers will pass the price increases along. (Note, food prices increased 70 percent last year, primarily due to corn ethanol and other growing mandates and environmental limits passed by the U.S. Congress, including these two senators.)

At the same time, these senators and some of their colleagues are complaining the poor do not have enough money to live on. (What do you think the result would be if we gave tomato growers the right to set the salaries of U.S. senators?)

Rep. Edward Markey, Massachusetts Democrat, introduced so called "net neutrality" legislation that would give the Federal Communications Commission enhanced power to control the prices that Internet service providers, such as Verizon and AT&T, charge to Internet content providers, such as Google and Yahoo.

Consumers want high-speed Internet with extensive bandwidth so they can video stream (one hour of television takes up 17,000 times more bandwidth than viewing a normal Web page). If Internet service providers cannot charge enough to cover the costs of providing the additional bandwidth, they obviously will not do it.

Everyone wants something for nothing or, at least, to have someone else pay. When government starts deciding who should pay rather than allowing the free market to work, you can bet there will be less broadband provided, and ultimately consumers will not have the services they desire.

And finally, Congress passed the 2009 "budget resolution" last week, which mandates more government spending, not subject to any cost-benefit analysis. It also mandates higher taxes, not only on the so-called "rich" but every American who ever receives a capital gain from the sale of a home, small business, corporate stock or a dividend check. It also mandates the "death tax" to go from zero in 2010 to 55 percent as of Jan. 1, 2011. (How many "excess deaths" do you think that will cause in December 2010?)

In sum, the budget resolution guarantees slower economic growth and fewer job opportunities because it increases nonproductive government spending and increases tax penalties on productive workers, savers and investors.

Are the senators and representatives who propose and vote for such destructive policies intellectually challenged, ignorant of history or merely corrupted by power?

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