

CAYMAN FINANCIAL REVIEW

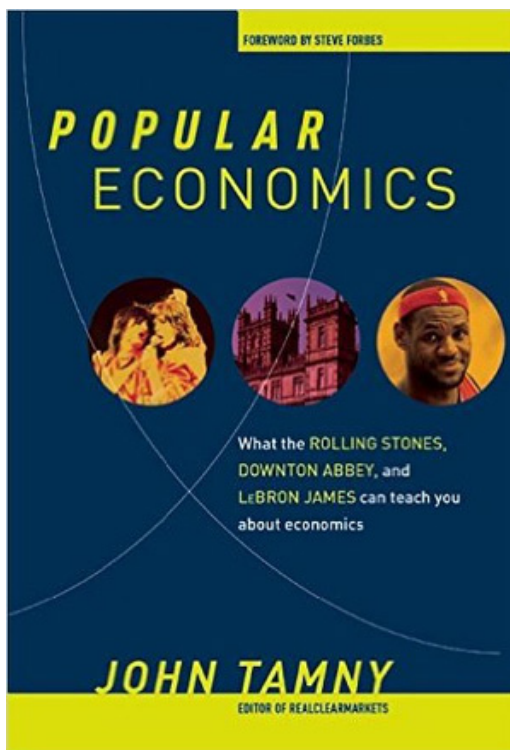
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BOOK REVIEW OF 'POPULAR ECONOMICS' BY JOHN TAMNY (REGNERY 2015)

*By Richard W. Rahn
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Do you get tired of the endless misinformation spewed by those who are running for or are already in public office and their enablers in the news media? Many who spout economic nonsense are indeed ignorant of the subject (which includes a number of Ph.D.'s who confuse a facility with applied mathematics with a knowledge of real economics), and others who just pander to an ignorant electorate.



Donald Trump, who clearly understands finance, somehow has missed the point that the Chinese, by providing countless goods at a much lower cost to consumers throughout the world, have in fact made everyone richer. Hillary Clinton seems unaware that higher capital tax rates reduce innovation and the flow of new beneficial goods and services. Bernie Sanders and most of his European socialist brothers seem not to have a clue about how economic systems work in reality. Even politicians like Marco Rubio, who has a good understanding of economics, shy away from the needed radical tax reform, fearing that simpletons in the media will criticize them.

The ability to think beyond “Stage I” is critical in economics and most other fields. How many people think about the fact that

when a politician promises to give them something, he or she is also promising to take it from someone else?

John Tamny, editor of RealClearMarkets.com and the Political Economy editor at Forbes, explains basic economic truths through entertaining real world examples in his new book, *Popular Economics*. In his section on the effects of taxes on labor, he notes: “California, the long time home of the film business, is run by politicians who are eager to reach into the pockets of its most productive industries. Though many of its best and brightest chose to live and work in California, they often make movies outside the Golden State. The Los Angeles Times reports that the ‘number of top-grossing films shot in California has plummeted 60% in the last 15 years.’ The alarming part of this story is how non-rich Californians suffer from the state’s aggressive taxation of some of its highest earners.”

In a prior life, having advised political candidates, including a U.S. president, the question always arose of what to give them to read so they would have a better grasp of economics and the consequences of economic policy making. *Popular Economics* answers that call for those now in public life. It has the virtue of being very well and clearly written, relatively short (slightly more than 200 pages), and without mathematical equations. Tamny correctly explains the consequences of economic policies by having many entertaining real world examples, showing both what works and what doesn’t and why. If I were now an advisor for a candidate, I would not only give him or her the book to read, but have a stack available to give to members of the press when they make assertions that are not true, both in their questions and stories.

Politicians love to tax “greedy” corporations, particularly oil companies like Exxon-Mobile, which Tamny notes “paid thirty-one billion in taxes on its profits in 2012.” The operative question is, “Did the government use that money as well as Exxon would have if it had been able to keep it and invest at least part of it in new production?” As we have learned in recent months, more oil production (primarily due to fracking), leads to lower gasoline prices which benefits (increases one’s real income) anyone who operates an automobile.

New companies need capital, which is difficult to obtain for new products that no one has ever heard of – how many of you knew that you could not live without an iPad until Steve Jobs told you it would change your life for the better? Politicians always talk about government “investment” with your tax dollars. But they allocate capital on the basis of political favoritism – think of the \$535 million bad loan to President Obama’s friends at Solyndra – rather than market need. The Chinese are having problems with many bad loans from state-owned banks made because of political connections rather than economic soundness.

Can you think of any investment the government has made that provided the return of an investment in Apple? As Tamny notes, “A mid-level Apple iPhone that retails for several hundred dollars has thirty-two gigabytes of flash memory, which would have cost the consumer \$1.44 million as recently as 1991. Taking into account all of its other features, an iPhone that the whole world uses today would have cost over three million dollars the year before Bill Clinton was elected President.”

Did you ever notice that most regulations either destroy the businesses they regulate or serve the interest of the entrenched businesses against the innovators? Again, Tamny provides many amusing and not so amusing examples of regulation and anti-trust gone wrong. When I took my first course in anti-trust, the fear was that IBM, U.S. Steel, and General Motors would become monopolies. All three have been losing market share for decades, have flirted with bankruptcy, and GM even took a government bailout. So much for the far-sighted people in government.

Ever since Adam Smith wrote his book in 1776, educated, wise and observant people (in contrast to many in the political and media class) have known about the benefits of free trade. John Tamny again explains the benefits through many examples in such a clear and compelling fashion that only a wooden-headed politician could not understand. A vignette I particularly like: “Free trade also brings peace. The New York Times columnist Thomas Friedman has famously noted that no country with a McDonald’s in it ever invaded another country with a McDonald’s in it. When trade is free, producers around the globe have a rooting interest in the success of the countries to which they export. They’ll prefer trading with them to fighting with them.” Friedman’s statement is almost true – but needs a little modification. Both Russia and Ukraine have McDonald’s, (even though Putin is closing many of them in Russia) so my restatement is: No country which is a true free-market democracy with a McDonald’s has invaded another free-market democracy with a McDonald’s.

Tamny also deals with the nature of money, the endless disaster which is known as the Federal Reserve, as well as other important issues in policy economics such as income inequality. Many readers will come away thinking about the world quite differently than they did before reading *Popular Economics*, and that is all to the good.

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