**Economics Made Easy Hw #3**

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Popular Economics: What the Rolling Stones, Downton Abbey, and LeBron James Can Teach You about Economics

By John Tamny

If you want to understand economics, all you have to do is read John Tamny’s new book, Popular Economics. After just one reading of this clear, easy to read, and entertaining book, you will understand economics better than most academic Ph.Ds., who are pettifogged by so much PC posturing that even they no longer know what they are talking about.

His book is the 21st century heir to Economics in One Lesson, by Henry Hazlitt, published in 1946. That book sold over a million copies. But Tamny’s is more sophisticated than Hazlitt’s publication of 70 years ago.

Steve Forbes writes in the foreword, “Tamny does for economics what the Gutenberg printing press did for the Bible, making a previously inaccessible subject open to all. Equally important, he does to economists what Toto did to the Wizard of Oz: pulling aside the curtain to expose the fraud that has become modern economics.”

Tamny is the editorial director of RealClearMarkets.com, a spin-off of the policy website RealClearPolitics.com. He formerly worked in private wealth management for Credit Suisse and Goldman Sachs.

Tamny is a fierce, well-informed critic of the whole notion of Keynesian economics. He writes, in exposing the illogic of the demand side focus of Keynes, “[O]ur wants are unlimited. We always desire something more, and the exchange of our labor for the food, clothing, and shelter that we do not possess makes economic growth a simple matter of reducing the barriers to production.”

In other words, human wants are insatiable. Therefore, insufficient aggregate demand can never be a problem for economic growth, as Keynesian economics fundamentally claims. Tamny explains further, “At the most basic level, a person must first supply something before he can purchase something else. The path to economic growth, then, is stimulating the supply side of the economy. Government can stimulate the supply side by reducing tax, regulatory, trade, and monetary barriers to production.”

That is the fundamental argument of Tamny’s book. Reagan campaigned in 1980 on a quite similar four-point economic program, which he then implemented after he was elected. That involved tax rate cuts, deregulation, spending reduction (on which Tamny also agrees), and sound, stable money (which meant ending the double digit inflation of the 1970s). Not room for all the data here, but that economic program was an astounding, historic success.

Free trade is an additional component of pro-growth, free market, economic policy, as Tamny emphasizes. But after first raising what become NAFTA in his November, 1979 presidential campaign kickoff, Reagan did not talk much about free trade again, presumably sensing the political grassroots skepticism about free trade even then.

After the introduction, Tamny’s book is devoted to explaining the above four point, supply-side, economic growth platform. He says that taxes are nothing more than a price or penalty placed on work. Tamny says we should “Bulldoze the U.S. Tax Code,” and adopt a simple, single rate flat tax.

Rand Paul has proposed something similar. He says he wants to “blow up the tax code,” and replace it with a simple 14.5% flat tax on everything, replacing both the income tax and the payroll tax. His proposal would apply the same 14.5% rate to everything — wages, profits, capital gains, dividends, interest. That elegantly outflanks the Left, and their false claims about billionaires paying lower tax rates than their secretaries. This proposal would end the argument by applying the same rate to everything, and ending loopholes.

Under a flat tax, the rich would pay exactly their fair share, or the same share of income taxes as their share of income. The same would be true for the middle class as well.

On the spending side, Tamny says, “It’s the spending, stupid. Budget deficits don’t really matter.” Tamny explains, “[W]e live in a global market. Whether the federal government borrows money or takes it in taxes isn’t the point. Both actions reduce the amount of capital to which the private sector has access, and that hurts growth. Which is preferable, annual deficits of $500 billion on one trillion dollars in annual spending or a balanced budget of three trillion dollars? The economic logic says the former is better. What is important is the amount spent on an annual basis.” Milton Friedman agreed with this as well, as did Ronald Reagan, who was tutored by Friedman.

In another finger in the eye to Keynesian economics (Paul Krugman, that means you), Tamny further explains, “It is of the utmost importance to reduce government expenditure in total. Entrepreneurs cannot be entrepreneurs without capital. If the federal government is consuming less of the capital stock, then the productive will have a bigger pool of capital to bid on.” That is why the priority is to reduce spending, and deficits don’t really matter.

But where conservative intellectuals need the most help is in understanding money. Tamny explains, “Money is not wealth. It is a measure of wealth.” It should not be allowed to vary in value in the marketplace any more than the foot can vary in the number of inches, or the hour can vary in the number of minutes.

The gold standard, no longer understood today even by many free market conservatives, served the purpose of holding the value of the dollar constant. That is why the Constitution defines the value of a dollar in terms of a certain number of ounces of gold. The market chose the gold standard because, as Tamny writes, “Gold has had the most stable value of any commodity in history.”

Under the gold standard, the money supply is not limited to the supply of gold. The money supply under a gold standard varies to equal the demand for money, which is necessary for the dollar, or any other unit of currency, to maintain a stable value. That is the whole point of a gold standard, to provide a measure to keep the value of the dollar, or unit of any other currency, stable.

The value of the dollar can be kept stable by other means than a gold standard. The monetary authorities can follow a “price rule” to guide their monetary policies, guided by market prices, as they did for 20 years after the election of Reagan in 1980.

But the gold standard is the most effective way to enforce stability in the value of the dollar. In particular, maintaining the convertibility of the dollar, or other currency, into a specific number or fraction of ounces of gold forces the Fed, or other monetary authority, to hold the value of the dollar to the stable value of that specific number or fraction of ounces of gold.

Tamny rightly explains that apparent volatility in the price of gold is actually volatility in the value of the dollar. So that is another fallacy of mentally lightweight “free market” opponents of the gold standard.

This function of the gold standard in enforcing stability in the value of the dollar is why establishment economists and the monetary authorities oppose the gold standard so viscerally. It takes away discretion in monetary policy, nullifying the vain fallacy that the monetary authorities can best guide the economy by manipulating the supply of money, and so vary its value. The gold standard consequently reduces the power of government to intervene in the economy. John Tamny makes such understanding easy as apple pie.