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FREE MARKET INSTITUTE

The Minnesota Free Market Institute Weekly Update Friday, June 19, 2009

Guest Post: Cap and Trade Draws An Ace - Rebuilding The House of Cards

by Doug Williams, [Bogus Gold](#)

The scariest thing you'll read this week is something you'll probably be tempted to overlook. It is this:

[Carbon Emissions Linked To Global Warming In Simple Linear Relationship](#)

Damon Matthews, a professor in Concordia University's Department of Geography, Planning and the Environment has found a direct relationship between carbon dioxide emissions and global warming. Matthews, together with colleagues from Victoria and the U.K., used a combination of global climate models and historical climate data to show that there is a simple linear relationship between total cumulative emissions and global temperature change.

Big deal, you might say. All those already upon the Global Warming bandwagon have been acting like this was already known for a couple of decades now. That's how we came up with the "carbon dioxide is pollution" nonsense. That's how we got ideas floating around like "carbon taxes" and "Cap and Trade" schemes.



Well yes, but... No one is seriously proposing a flat out carbon tax simply because opposition to it is a political no-brainer. People like to vote for taxes on other people. It's political suicide to be the politician (or the party) who wants to raise everyone's taxes....

Read the rest of the post [here](#).

WCCO Asks Good Question, Gives Bad Answer

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Jason DeRusha of WCCO thought it a "[Good Question](#)" - Can Government Budget Like a Family? His good source was Jay Kiedrowski, senior fellow at the University of Minnesota's Hubert H. Humphrey Institute for Public Affairs and Commissioner of Finance under Gov. Rudy Perpich.

"It's a simplistic metaphor, but it can be very misleading," Kiedrowski said, and I got interested. I couldn't agree more. "Families and government need to plan for the future budgets. They need to show discipline in sticking to guidelines," he said. So far, so

good. Kiedrowski went on to make these points:

- A family can't make use of deficit spending.
- Individuals do not have ongoing capital expenses.
- Families aren't limited to spending cuts; they can "raise revenues" by working more hours or taking a second job. Government can raise revenues by raising taxes.
- There are no ripple effects when an individual cuts spending. When government cuts spending, the effect is felt across the country and the world.

Wow. That from a former Commissioner of Finance? Not only are the above statements economically dubious, Kiedrowski leaves out the fundamental difference between family budgeting and government budgeting - the little distinction that families have unlimited possibilities while government is limited by constitutional restraint.

Quickly let's look at Kiedrowski's points.

Families and individuals do make use of deficit spending; they call it "borrowing" because there is an expectation that it will be paid back. Economists tell us that over our lifetimes our consumption level remains fairly stable while income varies. Just starting out in life, we spend more than we earn, borrowing for things like education, first cars and first homes. In mid-life we borrow for those "ongoing capital expenses" Kiedrowski doesn't think we have - the new roof on the house, the unexpected auto replacement, adding a room addition. Later in life, living on fixed incomes, we again spend more than we earn, relying on savings rather than debt to cover the difference - which brings us to Kiedrowski's revenue issue.

Families cannot simply "raise revenues." They can certainly pursue that option, but individuals do not have the power to force their employers to provide overtime or to force someone to hire them part-time on weekends because they have a "revenue shortfall." Government has that power. A legislative vote, a governor's signature and "Presto!" instant revenue.

Drawing a link, which Kiedrowski ignores, when government chooses to raise taxes to pay for its revenue shortfall, it makes it more difficult for individuals and families to pay back the loans they assumed to get ahead. [Legislating people into a higher tax bracket punishes education, saving and upward mobility.](#)

Finally, claiming that there are no ripple effects when individuals cut spending, including reducing spending because of tax increases, begs the question, where does government get its money?

Government cannot create wealth. Government cannot spend any amount until it first takes it from productive citizens. This is a classic case of the seen versus the unseen: The consequences of massive government spending are easily seen; unseen are the negative consequences of revenue that went to government projects instead of to other areas of the economy were the money left with individuals and families. The same on the spending side: the consequences of a million people spending a \$100 on myriad things they need is difficult to see; a \$100 million government project is a ribbon-cutting opportunity, regardless of its usefulness.

After all that fuzzy economics, Kiedrowski misses the main reason the metaphor doesn't work - governments and families have different obligations and potential. The phrase "government should live within its means" is most dangerous. It implies in good times, government can do more. That is not the case. Government has specific constitutional obligations, which ought to be fully funded, but it is limited by constitutional restraint not to exceed those obligations. If government has more revenue than it needs in good times, then it is over taxing, not experiencing an opportunity to increase services. WCCO posed a good question; Kiedrowski provided a less-than-adequate answer.

Craig Westover is a Senior Policy Fellow at the Minnesota Free Market Institute.

Event: Another Rip In The Economic Fabric - 21 Jun 2009

There's another rip in the economic fabric heading our way. So in a Potpourri Politics and a Pint, we'll talk a little about cap-and-trade, unintended consequences and the economic house of cards we find ourselves hiding under. Details:

What: Lively discussion and good company

Where: Politics and a Pint at the [Contented Cow](#) in Northfield Minnesota ([Location](#))

When: 6-7:30PM, 21 Jun 2009

References:

[Guest Post: Cap and Trade Draws An Ace - Rebuilding The House of Cards](#), by Doug Williams, Bogus Gold

[Dude, Where's My Cap-And-Trade Primer?](#), by David Kestenbaum and Steve Inskeep

[Meet Cap 'n Trade](#), "Cap and Trade is the linchpin of the government's effort to curb carbon emissions. Senior Editor Paddy Hirsch explains how the cap and trade model works."

Must Reads

[Proposed Financial Regulations](#) from the Treasury Department

Senator Tom Coburn's ["100 Stimulus Projects: A Second Opinion"](#)

[Net and Gross](#) posted by King Banaian at SCSU Scholars

Web News

My sincere apologies to our readers for the website outage over last weekend. It was an issue with a software "upgrade." We are back up and running again. Thank you for your patience.

-Adam Axvig

In Case You Missed It from the Minnesota Free Market Institute

King Banaian *SCSU Scholars*

- [We won't push it, but they're evil](#)
- [First look at bank reform -- not impressed](#)
- [What's the objective function?](#)
- [Clarification and interventionism](#)

State House Call

- [Politicized Benefit Design](#)
- [Seeking Regulations Out of Curiosity](#)
- [\\$4 Trillion for Health Care "Reform"](#)
- ["Public Option" Relies on Untested Premise](#)
- [An Obese Government to Mandate Calorie Disclosure](#)

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- [National School Standards? Can't. So, Ought Not.](#)

The Minnesota Free Market Institute Weekly Update is edited by [Margaret Martin](#)

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