



The Road to Prosperity by Patrick Toomey lays out a succinct plan to grow the American economy. Toomey has a sharp business mind and could be a strong voice for reform on the national political scene. He was a Republican Congressman in Pennsylvania 1999-2005. From 2005-2009 he served as the President of the Club for Growth. He plans on running for Senate in Pennsylvania in 2010 in a Democrat leaning territory but currently holds a 4-6 percentage point lead over the Democratic candidate- Joe Sestak. The *Road to Prosperity* lays out four principles for a prosperous economic future:

1. Property Rights- Ownership is the Foundation of Markets

Clearly defined rules in regards to property ownership is the trademark of a free, prosperous economy. Property is defined as real property (land, buildings, houses), personal property (movable goods- cars, boats, planes, clothes, money) and intellectual property (songs, books, software, trademarks). The evidence is overwhelming that a respect for personal property rights has led to prosperity in the past. And a lack of respect for property rights (communism and dictatorships) has led to economic distress.

As governments limit involvement in property to defining and protecting ownership, prosperity is the end result. As governments increase their role in defining how property should be used/confiscated for the "common good", prosperity is threatened.

2. Markets Work- Let Them

Austrian economist Fredrik Hayek called the elitist belief that government can manipulate the marketplace for the good of the people "the fatal conceit." Regulation has its proper role and place. We need police to keep the peace and act as a deterrent to evil minded criminals. But as Adam Smith wrote in the *Wealth of Nations*, it is the pursuit of self-interest, voluntary exchange, specialization and division of labor that promotes economic prosperity.

Too much regulation leads to the law of unintended consequences. For example, high minimum wage laws can lead to higher unemployment. Government subsidized prices can lead to lower prices for consumers in the short run, but in the long run usually results in an ineffective allocation of resources and taxpayer bailouts of industries that cannot produce profits without government help. Free markets undergo periods of creative destruction. Old, archaic industries that no longer meet consumer needs die over time- plain old telephone service, watches, newspapers. New, innovative industries emerge- mobile/wireless communication. Resources move to areas of the economy that are more productive. Government interference in this process sustains failing industries longer than needed and obstructs the efficiency of free markets.

3. Taxes and Spending- The Lower the Better

If you tax something, you get less of it. There have been articles in the past year about the folly of states raising income taxes and then watching their high income earners move to other states. Walter Wriston, "Capital goes to where it is welcomed and stays where it is well treated." Corporations don't really pay taxes- they just collect taxes from the consumer and pass it along to the government. This is terribly inefficient- US corporations pay one of the highest tax rates in the world. We are taxed in many complicated ways, but the taxes that discourage productive work are the worst. Higher income taxes and capital gains taxes make work less attractive than leisure to the higher income tax brackets.

The evidence has long supported that the wealthy pay more tax when marginal tax rates are lower. The larger problem is that government is way too fat and bloated. Toomey says this is due to two factors. One, concentrated benefits beat dispersed burdens. Second, the seen trumps the unseen. Governments claim that they create jobs and help people but the reality is that they redistribute wealth and hinder the private sector in the process with many unnecessary burdens. In other words, every job that the government "creates" comes at the cost of higher taxes on the private sector which is always the engine of true job growth.

4. Stable Money

Money should serve three purposes. First, as a unit of measure. Second, a medium of exchange. Third, a store of value over time. Therefore, money performs well when the value is stable and predictable. Since this is the primary function of money, government policy should be consistent with promoting stability. But this has not been the case. The problem according to Toomey has been the mandate from Congress to the Fed to promote maximum employment, stable prices and moderate long-term interest rates. By trying to accomplish the goal of maximum employment, the Fed has sacrificed stable prices and moderate interest rates. The negative, unintended consequence of trying to maintain full employment has led to credit bubbles, devaluation of the currency and inflation. Inflation destabilizes money and is therefore bad for the economy. Toomey believes that the Fed should focus solely on a stable currency. In the long run, this will be better for employment and moderate interest rates.

I agree with most of Toomey's conclusions. Less government and taxes is better. The Fed should concentrate on stable monetary policy only. Property rights should be protected and treasured. Free markets need to be promoted absent government manipulation. My problems with these libertarian views is that the Bible makes it clear that the unregenerate heart of man is wicked. In a world free from sin, libertarian views work. The problem with allowing every one to pursue their own self-interest is that some enjoy the thrill of power that comes from oppressing others. Of course the argument can be made that the heart is equally wicked in the hands of a "noble" government administrator and a cold-hearted, power hungry capitalist. Incentives matter. It seems that the role of government should be to encourage stewardship and productivity in its citizens. If policies were formulated with these questions in mind, we would all be better off: 1. What policies would encourage/incentivize the maximization of money, abilities, time and health in our citizens? 2. What tax and spending policies would encourage productivity and less reliance on government for the future?