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LOUISIANA'S RE-CONSTRUCTION AND RE-DEVELOPMENT: PRIVATE INITIATIVE WITH PUBLIC SUPPORT WHEN NECESSARY

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Dr. Davey Norris' third essay in *The News Star* affirming the dominant role of the public sector in economic affairs (December 18 and November 13, 2005, July 11, 2004), while well-argued, contains three statements that are troublesome and call for careful re-examination. The first is his assertion that when it comes to economic development those who want government to get out of the way of private enterprise raise "economic theory to the level of religious faith." Their argument, whether misguided or not, is in fact the dominant position today in mainstream economics and is firmly grounded in the philosophy of individualism which dates from the Age of Reason. Further, it is consistent with Abraham Lincoln's own version of the principle of subsidiarity: "the government should do for the people what the people are unable to do for themselves."

Subsidiarity is steadfastly rooted in reason, not faith, and can be stated and defended simply and logically as follows. The public sector should not usurp the functions of the private sector. Rather it should offer assistance so that the private sector functions effectively. By affirming a strong preference for private enterprise, subsidiarity effectively decentralizes ownership and control of economic activities that in turn (1) leads to a greater diversity of goods and services produced because entrepreneurs have a freer hand; (2) a smaller risk that large-scale mistakes will be made because in general private enterprises are smaller than public enterprises; and (3) private enterprises will be more responsive to their customers because they are driven by the need to turn a profit. Moreover, subsidiarity reinforces the democratic principle by widening opportunities for smaller less powerful functional elements in the economic order to participate in decision-making processes that bear upon their well-being.

The second troublesome statement is his condemnation of the recent action of the Louisiana legislature cutting retail sales taxes on a strictly limited basis prior to Christmas as a "PR joke." This assertion probably derives at least in part from the long-standing ridicule of supply-side economics by mainstream economists who from the very beginning have opposed it for its flimsy theoretical foundations and who to demonstrate their disdain refer to it as "voodoo economics." However, it can be argued quite sensibly that by boosting consumption expenditures, which across the United States are the main driving force behind economic affairs, this sales tax holiday helps re-energize retailing in Louisiana, the manufacturers who supply their wares, and thereby contributes to restoring the State's tax base.

The third is his statement that in the reconstruction of the hurricane devastated areas of coastal Louisiana “a precondition for growth will be the rebuilding of the damaged infrastructure by government” and “that can be done only with tax dollars.” This last assertion reminds one of the familiar riddle ‘which came first, the chicken or the egg?’ A fully-restored Superdome does not work without persuading the obstinate owner of the Saints to keep the team in New Orleans. The re-opening of universities in New Orleans, including Tulane and Loyola that largely escaped the physical devastation of Katrina due to their location in Uptown section of the city, depends critically on private housing for faculty, staff, and students, and that in turn depends importantly on private-sector financial institutions to supply the credit to re-store and re-build damaged housing units. In that case, tax credits very well could be just the right form of public support to facilitate the private initiative. Experience has demonstrated that the private sector can rebuild and manage housing much more effectively than the public sector but only the public sector can provide a levee system that protects that housing and shores up the confidence of New Orleans residents to return to the city. In that case, the levee re-building effort can be undertaken only through direct public intervention and expenditures.

It follows that “the government should do for the people what the people are unable to do for themselves” means that the public sector is limited to those economic activities that even with its support cannot be undertaken effectively by the private sector. Without that limit, political agents and public decision-making based on political influence increasingly govern economic affairs undercutting the role of economic agents and private decision-making based on the discipline of market demand. The ideal tax system is one that sets that limit according to the democratic principle and re-sets it when economic conditions change as seen most dramatically in the aftermath of the twin disasters of Hurricanes Katrina and Rita.

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