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Comment on the Commentary of the Day

by

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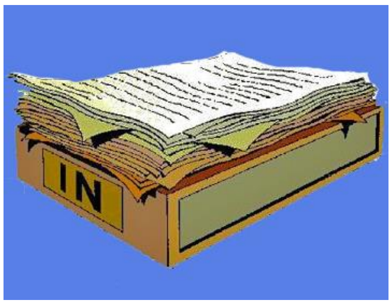

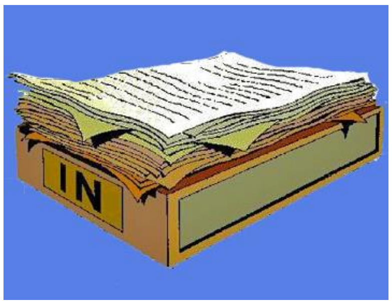

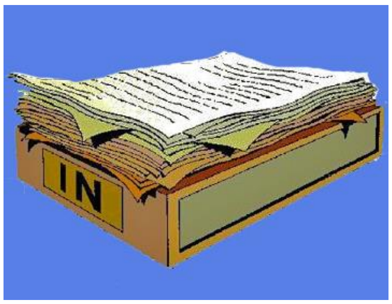

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription to access. Some of the articles being commented on are syndicated, therefore, they may also have appeared in other publications.

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4 April 2014

Mr. Pierre Taverson

Dear Mr. Taverson:

Thanks for e-mailing. If I understand your defense of minimum-wage legislation - and your criticism of my opposition to that legislation - you argue that the number of people who gain from the legislation is so large, relative to the number who suffer as a consequence, that the legislation "easily passes the cost benefit test."

You're correct that the CBO predicts that a hike in the minimum wage to $10.10 per hour will raise the pay of 16.5 million Americans while it will cause "only" 500,000 people to remain unemployed. Unlike you, though, I do not believe that this CBO finding justifies raising the minimum wage.

Because you read my blog you know that economists predict that hikes in the minimum wage will not only destroy some jobs but will also have other ill consequences, including for many workers who retain their jobs at the higher minimum wage. Let's, though, here ignore these other ill consequences and focus only on the CBO numbers mentioned in your e-mail.

I've some questions for you. Suppose the president of the United States randomly chooses 500,000 of the lowest-skilled workers in America and, with Congressional and Court approval, orders these workers to quit their jobs. "You must remain unemployed indefinitely," the president commands these workers. "My reason for ordering you to enter and to remain in the ranks of the unemployed is that, by removing you from the workforce and thereby artificially reducing the supply of labor, the wages of 16.5 million other low-skilled workers will rise. So do not despair! Your sacrifice is for the greater good. My policy easily passes the cost-benefit test."

Would you favor such a policy? If not, why do you support minimum-wage legislation knowing that it will force thousands of low-skilled workers into involuntary unemployment? While I understand that you can point to differences between a policy of raising the minimum wage and my hypothetical scenario, please explain which of those differences are substantive. Which of those differences make one policy of forcing a half-million workers into unemployment acceptable while the other policy of achieving the exact same outcome is unacceptable?

Sincerely,
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and
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5 April 2014

Editor, *Washington Post*
1150 15th St., NW
Washington, DC 20071

Dear Editor:

George Will writes that "tax simplification would reform politics by shrinking opportunities for transactions between private factions and the political class. This class confers favors as much with the tax code as with appropriations. 'You can drain the swamp,' says [Sen. Ron] Wyden. 'They did it in '86'" ("A tax reformer's uphill push," April 6).

Alas, matters are more complicated.

In 1986 Milton Friedman, my late Nobel-laureate colleague Jim Buchanan, and many other economists, while applauding the tax simplification enacted that year, pointed out that it was politically feasible only because by the mid-1980s the tax code had become so flooded with fiscal favors dispensed to special-interest groups that there was little room left for politicians to dispense any further such favors. So politicians drained the swamp. They did so, however, not to *shrink* opportunities for them to exchange political favors with private factions, but to make such exchanges once again easy and profitable. The swamp was drained, in short, only so that it could be refilled with the foul water and stench of interest-group politics.

This reality is no argument against tax simplification, but it does counsel realism about the motives of politicians who seek it and about the permanence of that simplification.

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8 April 2014

Editor, *New York Times*
620 Eighth Avenue
New York, NY 10018

Dear Editor:

You report that "[t]he president ... reiterated that it was 'an embarrassment' that women on average earn 77 cents for every dollar men make" ("Obama Signs Measures to Help Close Gender Gap in Pay," April 8).

Because our President is such a smart man, we cannot doubt that he is correct to explain pay differences across broad groups of workers (such as "men" and "women") as resulting from unjust discrimination against members of the lower-paid groups. But our smart President (no doubt because of his super-busy schedule) missed an instance of even greater pay inequity: that between young workers and older workers. Bureau of Labor Statistics data show that workers aged 16-24 make only 54 cents for every dollar earned by workers 25 and older!* It's embarrassing that our nation tolerates such discrimination.

Free-market ideologues will excuse this grotesque difference in pay with assertions such as "young workers aren't as productive as older workers." But our smart President isn't fooled by these corporate apologetics. He understands that worker pay is set arbitrarily by firms run by executives with biases against people who are not like them - biases so deep and powerful that each of these executives willingly sacrifices the extra profits that could be made by offering to hire, at slightly higher pay, underpaid women away from rival firms.

Because Mr. Obama knows that worker pay is determined by employers' whims and prejudices, he will understand that the only sensible explanation for the disgracefully low pay of young workers is discrimination against those workers. And so I look forward to our President signing executive orders aimed at closing this shameful pay gap.

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* http://www.bls.gov/cps/cpswom2012.pdf

11 April 2014

Mr. Aaron the Aaron

Dear Mr. the Aaron:

Thanks for sending me Robert Reich's blog post detailing his case for raising the minimum wage. You read Reich's argument as "settling the issue" in favor of raising the minimum wage; I read only a torrent of internal contradictions and economically uninformed nonsense.

I've no inclination to address each of his seven points. I'll content myself here to expose just one example of Reich's penchant for poor reasoning - an example so stunning that it should discredit everything the man says about any matter touching on economics.

Reich writes that "A $15/hour minimum is unlikely to result in higher prices because most businesses directly affected by it are in intense competition for consumers, and will take the raise out of profits rather than raise their prices."

Reich is correct that businesses are in intense competition for consumers. What he misses, however, is the fact that, precisely because of this intense competition, businesses have none of the excess profits that Reich presumes will be tapped into to pay the higher mandated wages.

This error exposes Reich's inability to grasp even the most elementary economic concepts. Intense competition eliminates excess profits; with no excess profits firms cannot, contra Reich, simply pay workers higher wages. Firms instead *must* respond to a higher minimum wage by some combination of hiring fewer low-skilled workers, working their remaining low-skilled workers harder and reducing these workers' non-wage pay, and charging higher prices for their outputs. The fact that Reich misses this reality - the fact that he does not understand that intense competition ensures that firms cannot possibly react to a higher minimum wage by tapping into their profits - tells any thinking person all that he or she needs to know about Reich's analytical skills.

Sincerely,
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12 April 2014

Ms. Josie Carrela

Dear Ms. Carrela:

Thank you for sending me the link to Prof. Clark's defense of the minimum wage. You are impressed especially by his argument that "Minimum wage laws ... will also support the bargaining power of workers."

I'm less impressed than you are with this argument. In fact, I believe it to be evidence of Prof. Clark's weak grasp of economics.

A worker's bargaining power is increased *only* if that worker is made more attractive to employers, which means only if that worker's skills are made less abundantly available to employers. This outcome can be achieved in several different ways, some socially productive and some not. For example, worker Jones can master skills that are in shorter supply relative to the demand for those skills; consumer demands for outputs can change in ways that raise employers' demands for workers with skill sets similar to those of Jones; or artificial restrictions, such as occupational licensing, can be used to reduce the number of workers who compete with Jones for jobs.

What does *not* increase the bargaining power of workers is for government to strip from them a bargaining chip - and such stripping is exactly what minimum-wage legislation accomplishes for workers with the fewest and least-valuable skills. Just as these workers' bargaining power would fall if government prevented them from, say, working after sundown or from working on Wednesdays, minimum-wage legislation reduces these workers' bargaining power by preventing them from competing for jobs (or for better non-wage terms of employment) by offering to work at hourly wages below the minimum. The minimum wage does nothing at all to make the skills of the lowest-skilled workers less abundantly available to employers while it simultaneously makes these workers *less* attractive to employers.

Some workers' bargaining power, however, *is* enhanced by the minimum wage, namely, workers who are somewhat more skilled than the lowest-skilled workers who lose their jobs. By artificially removing the lowest-skilled workers from the ranks of the employable, minimum-wage legislation artificially increases employers' demand for many higher-skilled (or otherwise more 'desirable') workers. For example, employers' demand for the skills of my private-school educated, upper-middle-class 17-year-old white son is raised by minimum-wage legislation. The reason is that such legislation prevents many teenagers from poorer families - who are denied the bargaining chip of being able to offer to work for wages lower than the minimum - from competing with my son for a job. Is that fair? Is that just? I think not.

Sincerely,
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15 April 2014

Producer, Morning Joe
MSNBC

Dear Sir or Madam:

On yesterday's show Robert Reich proclaimed that "we really do have to spread, seriously, ownership because if most of the gains are coming from stock-rate gains, the whole country ought to be part of that."*

One would think that a former U.S. Secretary of Labor would have heard of the institution called "the stock market." People can buy shares of corporate stock there. The existence of this market, and the ready access to it promoted by companies such as Fidelity and eTrade, mean that no government action is necessary to enable Americans even of modest means "to be part of" the group of people who own corporate stocks. Becoming "part of that" group is easy and inexpensive, as a perusal of, say, eTrade's website will make plain. Therefore, the typical American who is today not "part of" the stock market is someone who *chooses* not to be part of it. That's a choice that, unlike Prof. Reich, I respect and have no wish to use government to override.

Sincerely,
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* http://newsbusters.org/blogs/paul-bremmer/2014/04/15/robert-reich-spread-ownership-because-whole-country-ought-be-part-stoc

21 April 2014

Editor, *Food Business News*

Dear Sir or Madam:

You report that the U.S. Department of Commerce is launching an "antidumping investigation" into U.S. sugar imports from Mexico ("D.O.C. initiates sugar dumping case against Mexico," April 21). The admitted purpose of this investigation is to protect American sugar producers from low-priced foreign sugar. The deeper goal, of course, is to artificially bloat these producers' revenues.

So, because Uncle Sam's sugar-trade policy is really just corporate welfare, why go through the costly and confusing rigmarole of conducting such "investigations" as preludes to raising the punitive taxes imposed on Americans who buy imported sugar? Why not dispense such welfare more directly to sugar producers in the form of cash payments? Let Uncle Sam annually cut each current U.S. sugar producer a check for the goo-gobs of extra money that he or she now gets as a result of being protected from foreign competition. At least this way sugar prices in the U.S. would not be artificially distorted, the resources now used to produce sugar inefficiently in the U.S. would made available to produce other outputs, and the recipients of this corporate welfare would be more easily seen as the coddled and parasitic welfare queens that they in fact are.

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26 April 2014

Editor, *Wall Street Journal*
1211 6th Ave.
New York, NY 10036

Dear Editor:

Everyone on the planet who worries that free markets generate "unsustainable" economic growth should read Matt Ridley's superb essay "The World's Resources Aren't Running Out" (April 26). An insight implied in Mr. Ridley's refutation of environmental doomsayers is the late Julian Simon's understanding that the ultimate resource is the human mind.

Most environmentalists think that resources are "natural." But they're not. No substance on earth - not iron ore, not petroleum, not even land - is a resource unless and until human beings creatively figure out how to use that substance to produce outputs cost-effectively. And innovative, free markets are by far the most powerful engine ever stumbled upon to power such human creativity. As the economic historians Gavin Wright and Jesse Czelusta put it, "the abundance of ... mineral resources should not be seen as merely a fortunate natural endowment. It is more appropriately understood as a form of collective learning, a return on large-scale investments in exploration, transportation, geological knowledge, and the technologies of mineral extraction, refining, and utilization."*

So the great irony is that the chief source of "natural resources" is the very economic institution - entrepreneurial capitalism - that environmentalists accuse of destroying natural resources.

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* Gavin Wright and Jesse Czelusta, "The Myth of the Resource Curse," Challenge, March/April 2004:
http://cafehayek.com/wp-content/uploads/2011/07/The-Myth-of-the-Resource-Curse.pdf

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