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Comment on the Commentary of the Day

by

Donald J. Boudreaux

Professor, Department of Economics

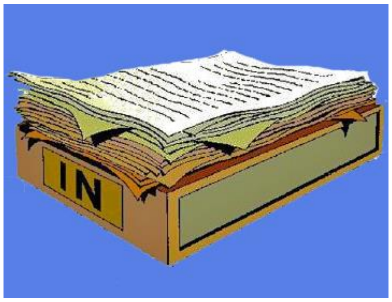
Martha and Nelson Getchell Chair for Free Market Capitalism

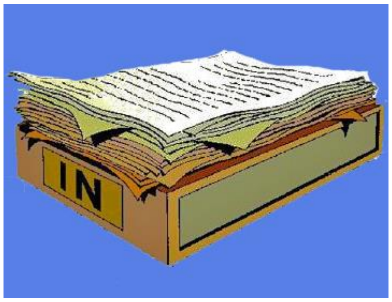
Mercatus Center

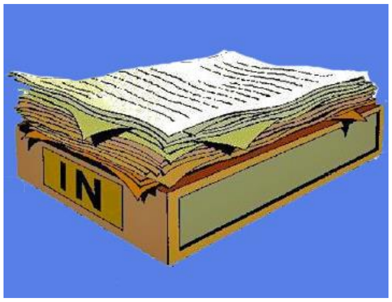
George Mason University

dboudrea@gmu.edu

http://www.cafehayek.com







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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17 July 2015

Editor, *Washington Examiner*

Dear Editor:

Michael Barone is correct that Hillary Clinton campaigns on “the assumption that government is capable of solving just about every problem” (“Hillary Clinton’s economics: Suddenly it’s 1947,” July 15). Utterly predictable. A politician portraying herself as capable of saving humanity by heroically performing feats that are economically impossible is as surprising as a director of a Superman movie portraying Superman as capable of saving humanity by heroically performing feats that are physically impossible.

A reality-based politician has no more chance of scoring big at the polls than a reality-based Superman movie has of scoring big at the box office.

Sincerely,
Donald J. Boudreaux
Professor of Economics
and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

Mr. Arthur Petersen

Dear Mr. Petersen:

Thanks for your very kind e-mail about your friend who admires Bernie Sanders’s economics.

Believing that capitalism unfairly exploits workers, your friend denies your claim that “people make wages based on their value to their employer.” According to your friend, your claim (as he describes it) “is a terrible fallacy. People make what the market allows them to, not based on the value they bring to the market but how many other people could bring the same value.”

Your friend, while expressing an important detail, is mistaken.

The important detail expressed by your friend is that Jones’s wage is indeed determined by how many other workers can perform the job that Jones performs. But your friend is mistaken to conclude from this fact that Jones’s wage is not based on her value to her employer. Wages are determined by the value that the *additional* worker adds to her employer’s bottom line. It’s true that if many workers can perform the same task at which Jones works, then the addition that Jones contributes to her employer’s bottom line is small (because also lots of other workers are performing that same task) and so Jones's wage will be low. In contrast, if very few workers can perform the task at which Jones works, then the addition that Jones contributes to her employer’s bottom line is large and, so, Jones's wage will be high. In either case, Jones’s wage reflects - as you correctly told your friend - the worker’s value to her employer. In economists’ language, wages are determined by the value of the worker’s *marginal* product.

Now your friend might assert in response that most employers consistently pay workers less than the value of workers' marginal products. If he replies in this way, challenge your friend to give evidence of his belief in his assertion: tell him that he can simultaneously (1) prove that he means what he says, (2) make a personal fortune, *and* (3) directly help many workers by himself opening a business and hiring away at higher wages lots of underpaid workers. If your friend’s response is to help solve the alleged problem of unfair worker exploitation only by voting for Bernie Sanders rather than by opening his own business, then he reveals that his understanding of economic reality is unreliable or that he, deep down, doesn’t really believe what he asserts. Either way, if your friend rejects your suggestion you've no need to take his argument seriously.

Don

Mr. B. Harris

Dear Mr. Harris:

Thanks for your e-mail.

First, when I say in my blog post* that Paul Krugman is wrong, I refer not to the correctness or incorrectness of his reasons for supporting the minimum wage but, instead, only to his claim that “there’s just no evidence that raising the minimum wage costs jobs.” On *this* matter he is indeed, contrary to your defense of him, clearly and verifiably wrong (as my blog post documents).

Second, you mistakenly suppose that the argument over the rightness or wrongness of the minimum wage turns on accurately measuring the amount of extra income earned by minimum-wage workers who keep their jobs compared to the amount of income lost by workers who are rendered unemployed by the minimum wage. Yet, in fact, the traditional economist's objection to the minimum wage has nothing whatsoever to do with the effect of the minimum wage on low-skilled-workers' aggregate income. I'm perfectly willing to believe that a higher minimum wage results in a higher income for low-skilled workers *as a group*.

My objection to the minimum wage stems exclusively from the economic reality that such legislation arbitrarily prices some workers out of jobs. (Incidentally, it also causes total economic output to be lower than otherwise - so total income for *all*workers *as a group* falls.) Discussing all low-skilled workers as if they are a unified group with a single collective interest - such as, say, a family - is deeply erroneous. They are no such thing. And so the government has neither an economically nor a morally defensible reason to enforce policies that cause some low-skilled workers' incomes to rise by making it impossible for other low-skilled workers to find jobs, even if the gains enjoyed by the employed low-skilled workers exceed the losses suffered by the ones forced into the ranks of the unemployed.

If you disagree, then consider the following scenario. Suppose that an economist produces an indisputably correct quantitative study showing that a policy of outlawing the employment of everyone whose last name is “Harris” will increase the total income of that *group* of workers whose last names start with “H.” Such an outcome is perfectly possible in reality. So would you, as an unemployed Harris, console yourself with the knowledge that you're a member of a group - namely, people whose last names start with “H” - that, because of the policy that causes you to be unemployed, has a higher aggregate income? Would you suppose that voters, pundits, and politicians have a scientifically sound reason to support this government policy of prohibiting you and all other Harrises from working?

My guess is that you’d oppose - and rightly so - such an anti-Harris policy. Yet such a policy is quite similar in its economic and ethical essence to a legislated minimum wage.

Sincerely,
Donald J. Boudreaux
Professor of Economics
and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

* http://cafehayek.com/2015/07/no-evidence-of-distortion.html

20 July 2015

Ms. Louise Lauderdale

Dear Ms. Lauderdale:

Thanks for your e-mail.

You wonder why I don't share your "fear that robots and technology will make only the 1% richer and make the rest of us poor by wiping out all the jobs.... There won't be a thing left for human workers to do."

Your fear, which is widely shared, makes no sense when you think about it. A society in which most people are poor and yet is also a society that contains no opportunities for people to engage in productive, gainful work for each other is difficult even to conceive, and in reality is an impossibility.

The essence of being poor is having an unusually large number of unmet economic needs and wants. Poor people suffer the likes of too little clothing, cramped and poorly furnished housing, transportation vehicles that are dangerous and frequently break down, untreated illnesses - the list is long. So a society with many poor people is a society with an especially *large*number of jobs to be done rather than one with not "a thing left for human workers to do."

Now you'll interject here by saying "Yes, but all those jobs will be done by robots and other technologies" – to which I respond: If all of those jobs can indeed be done by robots and other technologies at prices that everyone can afford, then everyone is very rich and no one is poor. The reason is that, by your assumption, everyone can afford to use robots and other technologies to satisfy all of their economic needs and wants. There are no jobs for humans in this fantastic world only because robots and other technologies are the most affordable options for every person to use to satisfy each and every one of his or her economic desires. In contrast, if all of those jobs can*not* be done by robots and other technologies at prices that everyone can afford, then the robots and other technologies have not achieved what your scenario assumes they achieve, namely, the wiping out of all opportunities for humans to work gainfully for each other.

In short, a society in which robots and other technologies are so advanced and inexpensive to use that they are the least-costly way to satisfy all human economic desires cannot possibly also be a society with lots of poor people (that is, a society with lots people who cannot afford to satisfy many of their economic needs).

Sincerely,
Donald J. Boudreaux
Professor of Economics
  and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the

Mercatus Center
George Mason University
Fairfax, VA 22030

22 July 2015

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

Dear Editor:

In your report on Pres. Obama's proposal to force more workers to accept as part of their employment contracts greater eligibility for overtime pay, you quote Sloan School of Management professor Thomas Kochan saying that such a government-imposed mandate "helps drive up productivity" by leading "management to look for more efficient ways of doing their business" ("Overtime Rules Send Bosses Scrambling," July 21).

Wow. One wonders what's being taught at business schools such as Sloan. If Prof. Kochan is correct that managers throughout the country must be coerced by government - which is manned chiefly by people with J.D.s and not MBAs - to run their firms more efficiently, the value of a business-school education must be quite low. Do such schools teach their students even less about how to efficiently run businesses than is taught to students in law schools? Apparently so.

Sincerely,
Donald J. Boudreaux
Professor of Economics
  and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

25 July 2015

Editor, *The Washington Post*

Dear Editor:

Robert Samuelson offers sound objections to Hillary Clinton's plan to fiddle with the tax code to prompt employers to share more profits with employees ("The trouble with Hillary Clinton's profit-sharing plan," July 23). Allow me to offer yet another objection: her plan is too narrow. It aims to encourage more sharing of profits only with workers of profitable firms. A better plan is one that both encourages the creation of more profits *and* the sharing of these profits as widely as possible, not only with workers of profitable firms, but also with workers of unprofitable firms and with people who don’t work at all - that is, with everyone.

Such a better plan would slash taxes, reduce regulations and other government-erected entry barriers, and make trade free, all to encourage more innovation, more-ready entry into thriving industries, and more intense competition.

More innovation, by generating larger streams of novel and highly prized outputs, would produce more unusually high gains for successful firms - gains available to be disbursed not only in the form of profits shared with workers but also in the form of new products shared with consumers. More-ready entry into thriving industries would more quickly drive down the prices consumers pay and further expand their access to new goods and services. And free global trade in both goods and investments - by imposing ceaseless competitive discipline on American firms and by guaranteeing American consumers’ access to the fruits of the most creative and efficient producers on the globe regardless of location - would ensure that any unusually high profits that American firms earn today will soon be shared with consumers through falling prices and with workers through higher wages that are bid up to fully reflect increased worker productivity.

Sincerely,
Donald J. Boudreaux
Professor of Economics
and
Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center
George Mason University
Fairfax, VA 22030

UNIVERSITY of West Georgia