Comment on the Commentary of the Day

by

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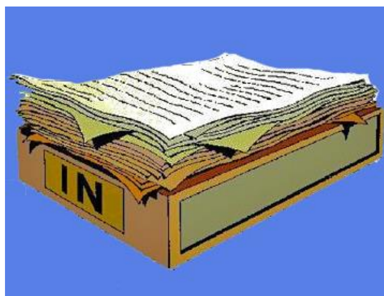

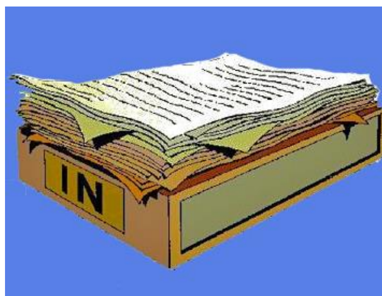

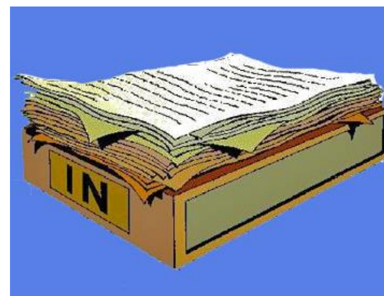

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

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23 November 2015

Editor, BloombergView

Dear Editor:

Noah Smith speculates that raising the minimum wage might be good for low-skilled workers over time because a higher minimum wage prompts firms to invest in technologies that increase worker productivity ("Want Innovation? Try Raising Minimum Wages," Nov. 23). Key to his case is his observation that "[i]n the past, when companies implemented labor-saving technology - whether assembly lines or computers - their workers didn't simply go on the unemployment rolls. They became more productive than before and commanded higher wages." While this observation is accurate, by using it to justify minimum wages Mr. Smith confuses cause and effect.

Higher wages do not cause higher worker productivity; instead, higher worker productivity causes higher wages. When industry X is expanding and its workers are becoming more productive, companies in X bid for more workers by raising the wages paid in X. Higher wages in industry X attract workers from industry Y, thus prompting companies in industry Y to implement labor-saving technology. The implementation of labor-saving technology in industry Y causes no unemployment because it is industry Y's response to industry's X's increased demand for workers - an increased demand for workers that, again, is the result of a rise in worker productivity in X.

In contrast, if wages are forced up by diktat rather than competed up in response to rising worker productivity, wages for some workers will exceed the value of their productivity. These workers will be unemployed. And in addition to losing current income, these workers will be denied on-the-job experience - a denial that thwarts improvements in their productivity (that is, in their "human capital"). The economy over time will become less, not more, productive.

Sincerely,
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24 November 2015

Editor, BloombergView

Dear Editor:

Noah Smith writes that raising the minimum wage can strengthen the economy by prompting additional investments in labor-saving technology ("Want Innovation? Try Raising Minimum Wages," Nov. 23). He's right to argue that raising the minimum wage prompts such investments; he's wrong to argue that such investments strengthen the economy.

Investment in labor-saving technology is like nearly everything else in life: there's an optimal amount of it. Too much is as harmful as is too little. It makes no more sense to argue that government-prompted additional investments in labor-saving technology are beneficial than it does to argue that government-prompted additional investments in oil drilling or in big-box retailing are beneficial. Because we have no good reason to suppose that market forces consistently result in too little investment in labor-saving technology, artificially prompting more of it will result in too much of it.

There's an even worse downside of using minimum wages to artificially promote investments in labor-saving technology. Labor-saving technology put in place in response to market forces reduces some industries' use of labor as workers are bid away to work productively in other industries where those workers' outputs have become more valuable. In contrast, labor-saving technology put in place in response to higher minimum wages reduces some industries' use of labor as workers are cast unproductively into the ranks of the unemployed because in no industries are those workers' outputs valuable enough to justify paying those workers the minimum wage.

Sincerely,
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24 November 2015

Editor, BloombergView

Dear Editor:

In “Want Innovation? Try Raising Minimum Wages” (Nov. 23) Noah Smith implicitly plays the game ‘I Can Imagine That....’ Specifically, he can imagine that raising the minimum wage will spur enough additional investment in labor-saving technology that over time the economy will grow so much faster that everyone will benefit. As Mr. Smith puts it: “I am not sure that workers should be so afraid of being replaced by this kind of technological improvements. Ultimately, it may make them more productive, and actually help them earn more.”

The problem with this game is that the moves its players can make are far too numerous and unconstrained. For example, I Can Imagine That imposing a price *ceiling* on low-skilled labor - say, by prohibiting anyone from earning wages within the range of $2.50 per hour to $25.00 per hour - will encourage so many low-skilled people who otherwise would not go to college to go to college, with the result being that over time all of these workers, and the nation as a whole, will be made economically better off. That is, many workers who today choose to work at hourly wages such as $7.25 or $12.00 would, if available jobs paid a maximum of $2.50 per hour, instead flock to college where they would invest heavily in their human capital.

At the opposite end of the spectrum, I Can Imagine That if government prevented all women and minorities from attending school beyond the 12th grade that the resulting fall in the supply of high-skilled labor would prompt employers to invest more in technology to perform many of the tasks that would otherwise be performed by such labor - investment that, over time, would so enlarge the economic pie that everyone would be made economically better off.

Indeed, I can imagine almost anything - and so can everyone else, which makes such a game analytically pointless and politically dangerous.

Sincerely,
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25 November 2015

Mr. Craig Bolton

Mr. Bolton:

If I read you correctly you share Noah Smith's assessment that Econ 101 courses present overly simplified views of reality - views that are improved by advanced economics courses that (in your words) “account for some real world complexities.”

Whatever the merits or demerits of advanced courses in economics (themselves largely determined by who teaches such courses), it is a mistake to accuse Econ 101 of necessarily presenting an overly simplified view of reality. Indeed, good Econ 101 courses have it as one of their chief purposes to *immerse* students in real-world complexities.

In a good Econ 101 course (such as is taught at George Mason University), students learn that most of what passes as sensible economic commentary by politicians, pundits, and preachers is but a torrent of extraordinarily simplistic myths. In a good Econ 101 course, students learn to peer beyond and behind the surface phenomena that most non-economists simple-mindedly presume to constitute the whole of economic affairs. After completing a good Econ 101 course, students understand that the economy is far too complex for the tinkering and social engineering that is routinely advocated by elected officials, academics, and "activists" to succeed.

It is not a stretch to say that no collegiate course does more to reveal to students the complexities of reality than does a good course in Econ 101.

Sincerely,
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28 November 2015

Mr. Kevin Martin

Mr. Martin:

Recollecting that your Econ 101 course at Rice portrayed the world as "pretty simple," you ask me to elaborate on my claim (made at my blog) that a good Econ 101 course "is all about revealing reality's complexities."

Your particular Econ 101 course seems very different from the one that I teach. My course - which I (perhaps conceitedly) believe is one that economists such as Milton Friedman, F.A. Hayek, and Thomas Sowell would describe as a good Econ 101 course - uses straightforward economic analysis to dispel simplistic yet widely held notions about the economy. The typical student entering my class simple-mindedly believes such popular myths as that

- prices and wages on markets are simply "set" by businesses;

- steep increases in the prices of fuel and bottle water in the aftermaths of natural disasters are caused simply by "greed," and that government-imposed prohibitions on such "price gouging" simply make these goods more affordable and accessible;

- rent control obviously makes apartments more affordable;

- a hike in the minimum wage is a simple and obvious way to help all low-skilled workers;

- stricter government safety regulations obviously make people safer;

- imports from low-wage countries obviously reduce average wages in the U.S. or reduce overall employment in the U.S. (or both);

- trading with foreigners is of course economically different than trading with fellow citizens;

- taxes are obviously paid by the individuals and businesses that government makes responsible for paying the taxes;

- of course the chief source of economic strength and growth is consumer spending, and reductions in consumer spending are inevitably harmful;

- the interests of businesses are obviously at odds with those of consumers and workers;

- advocates of laissez faire simply are "pro-business" and (hence) "anti-consumer" and

“anti-labor”;

- of course the rich get richer and the poor get poorer;

- government officials’ chief intention, of course, is to improve the well-being of the public.

If I do my job well, by semester’s end each of my students understands that the world is far more complex and reality less "obvious" than he or she believed it to be at the semester's start.

Sincerely,
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29 November 2015

Mr. or Ms. WorkingAmerican:

You find “laughable,” “beyond crazy,” and “so stupid it’s something only academics think” my claim that Americans trading with low-wage foreigners is no different than Americans trading with each other. One reason for your finding such hilarity in my claim is that I allegedly “miss the unfair enormous cost advantage” enjoyed by producers in low-wage countries.

Please learn some economics.

First, the alleged “enormous cost advantage” of such foreign producers is a mirage. Those very low wages reflect the very low productivity of workers in those foreign countries. So there exists here nothing to describe as "unfair" or "fair."

Second, trade is governed by comparative advantage.* This fact means that even if wages in some countries were indeed significantly lower in all industries than worker productivity in those countries, it would still be profitable for people in those countries to import from high-wage countries many of the goods and services that they consume. In other words, many American producers would still find it profitable to export to those countries.

Third, trade is conducted by people, not by countries. It is no more economically damaging for me to buy sneakers from Brazilian shoemakers who have an “enormous

cost advantage" over me in the production of footwear than it is for me to buy chardonnay from California vintners who have an "enormous cost advantage" over me in the production of wine.

Sincerely,
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* http://www.econlib.org/library/Enc/ComparativeAdvantage.html

2 December 2015

Editor, CNN

Dear Editor:

Katharina Rall's account of the perils and travails suffered today by the world's poorest people is meant to highlight problems caused by climate change ("Why climate deal is everyone's business," Nov. 30). But it does no such thing. Instead, it highlights problems caused by the failure of some peoples to embrace norms and policies that unleash market-driven economic growth.

All the perils and travails that Ms. Rall mentions - from inadequate access to clean water and sanitation to the need for long dreary hours of backbreaking work - were routinely suffered by nearly everyone on earth before the industrial revolution. Filth, hunger, short life expectancy, illiteracy, subjugation of women, sanguinary conflicts over scarce resources - these horrors are not the recent consequences of climate change. They are the ages-old consequences of persistent and widespread poverty. This poverty and its accompanying miseries were eliminated only when and only where people embraced the very economic system that so many of today's environmentalists wish either to abolish outright or to jeopardize with unprecedented government-fashioned fetters: entrepreneurial capitalism.

Ms. Rall's grotesquely mistaken diagnosis of the problems that ail the world's poor serves only to encourage calamitously counterproductive policies that will not only not enrich people in poor countries but will also impoverish people in rich countries.

Sincerely,
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3 December 2015

Editor, *Huffington Post*

Dear Editor:

Ian Fletcher's "No, Free Trade Didn't Lift Millions Out of Poverty" (Dec. 3) is a perfect specimen for how to write an atrociously bad article - one in which straw men are slain, arguments misconstrued, reality misinterpreted, and outright falsehoods presented as if they are indisputable truths.

Contrary to Mr. Fletcher's grotesquely mistaken suggestion, no free-trade proponent has ever argued that free trade is sufficient to create mass flourishing. Even worse is Mr. Fletcher's laughably wrong assertion that "[e]conomic history makes very clear that free trade *per se* is a bad idea for developing nations." Apparently Mr. Fletcher is unfamiliar with Hong Kong, which has for more than sixty years held fast to a unilateral policy of virtually complete free trade. In 1960 per-capita income in that free-trade nation was on par with that of poor Greece - or about 18 percent of that in the United States of 1960. Today Hong Kong's per-capita income is the seventh highest in the world - 124 percent higher than that of today's Greece and above even that in the U.S. today.

The example of Hong Kong also proves wrong Mr. Fletcher's suggestion that mercantilism - a cronyist policy of protectionism and other special favors - is historically a critical component of economic growth.

Finally, anyone tempted to fall for Mr. Fletcher's ignorant brief on behalf of protectionism should consider that, while Uncle Sam has indeed never followed a policy of unsullied free trade with other nations, the U.S. Constitution since its ratification has guaranteed that free trade has always reigned *within* the United States. If Mr. Fletcher is correct that free trade impoverishes rather than enriches, how does he explain the steady and tremendous enrichment of the likes of New Yorkers, Virginians, Indianans, and Floridians who have always traded freely with the likes of Hawaiians, Texans, Californians, and Minnesotans? Surely, the mere collecting of a number of different political jurisdictions - such as the 50 U.S. States - under an overarching sovereign authority does not turn an impoverishing economic practice into an enriching one.

Sincerely,
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