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Comment on the Commentary of the Day

by

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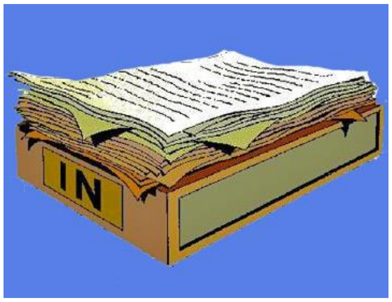

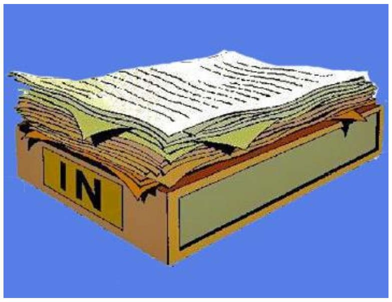

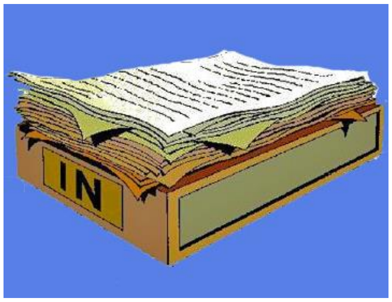

Disclaimer: The following "Letters to the Editor" were sent to the respective publications on the dates indicated. Some were printed, but many were not. The original articles that are being commented on may or may not be available on the internet, and if they are, they may require registration or subscription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

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7 March 2015

Ms. Donna Terrebonne

Dear Ms. Terrebonne:

Thanks for your e-mail.

I am indeed from Louisiana - New Orleans, to be precise. You being also from that part of the world you'll likely remember Avondale Shipyards, located just outside of New Orleans. Avondale was for many years one of the largest private employers in Louisiana. My father worked there (as a pipefitter) for most of his career. So too did my maternal grandfather spend his career there. So too did several of my uncles. My mother worked there (as a secretary); my brother worked there for a while. The adults in the working-class neighborhood where I grew up (in the New Orleans suburb of Marrero) mostly all worked at Avondale, all in blue-collar jobs - which brings me to your question of why, while I "complain about the power of politicians," I allegedly "ignore employers' arbitrary and abusive power over workers."

What power?

My parents, grandfather, uncles, and everyone else I knew who worked at Avondale did so voluntarily. Each was pleased to work there. Indeed, when my mother was laid off permanently in 1989 after working at Avondale for 16 years, she was quite sad - hardly a feeling mom would have suffered had she been released from the grip of an entity that battered her with its arbitrary and abusive power.

Of course, my parents - like every other blue-collar Avondale laborer - would have much preferred jobs that offered more pleasant and safer work environments and that were better-paid. Blue-collar work in a shipyard is dull, filthy, backbreaking, dangerous, and relatively poorly paid. But no one forced my parents, grandfather, or anyone else to work at Avondale. Given their levels of education, their skills, *and their other options*, work at Avondale was the best option available to my parents and to Avondale's thousands of other workers. And Avondale, of course, was not to blame for the relative poorness of its workers' other employment options.

It’s bafflingly odd that when an employer arrives and remains on the scene and successfully expands workers’ employment options, that employer is assumed to gain “power” over workers. What you, Ms. Terrebonne, assume to be an employer’s power over its workers is nothing other than the relative *attractiveness* of the jobs that that employer offers to workers. Unlike government which *commands* - and cages or shoots those who disobey – private firms merely *offer*. Workers are free to accept or reject.

Sincerely,
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and
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The following is a summary of Jeff Madrick’s recent book, Professor Boudreaux reviewed recently for *Barron's*; it's the last review at this link:
http://online.barrons.com/articles/cops-of-the-world-no-more-1422690043

10 March 2015

Editor, *American Prospect*

Dear Editor:

In “Why Economists Cling to Discredited Ideas” (Winter 2015) Jeff Madrick caricatures modern economics as well as the policies that economists supposedly foisted upon an unsuspecting public. Among the many flaws that infect this essay is Madrick’s defense of minimum-wage legislation.

Madrick mistakenly suggests that recent empirical research shows convincingly that minimum wages do not diminish to any meaningful degree the job opportunities open to low-skilled workers. *Some* research reaches this conclusion, but a great deal of other research reaches a conclusion quite the opposite.*

So is this matter a toss-up? It might be were it not for the fact that the idea behind economists’ opposition to minimum-wage legislation is both foundational and not remotely discredited. This idea is not (contrary to Madrick’s telling) that the invisible hand operates flawlessly but, instead, that as people incur higher costs of engaging in some activity people engage in less of that activity. Indeed, the very same proposition that assures many economists that a government policy of raising firms’ costs of employing low-skilled workers causes firms to employ fewer such workers also, and quite rightly, assures even “Progressives” that, for example, a higher tax on carbon emissions causes firms to emit less carbon and that a steeper tariff on imports causes consumers to buy fewer imports.

Until and unless a compelling reason is found to conclude that low-skilled labor, apparently alone among all goods and services, is not subject to this economic reality (and neither the alleged monopsony power of employers nor the presumed ability of higher minimum-wages to spark sufficiently greater consumer demand come within light-years of “compelling”), wise economists will and should continue to warn that minimum wages inflict disproportionate harm on the very workers that they are ostensibly meant to help.

Sincerely,
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* See, for example, David Neumark and William L. Wascher, *Minimum Wages*, Rev. ed. (Cambridge, MA: MIT Press, 2010).

11 March 2015

Mr. Marion Ellis

Dear Mr. Ellis:

You ask why I “disregard the higher spending by minimum wage workers as a cause of more demand for these workers.” With respect, while all arguments in favor of the minimum wage are bad, among the absolute worst of these arguments is the one (that you offer) that says that a hike in the minimum wage causes the demand for low-skilled workers to rise because these workers will then have more money to spend.

First, your argument blithely assumes that the demand for low-skilled workers is (to use an economics term) inelastic - that is, it assumes that the initial percentage reduction in employers’ demand for hours of low-skilled labor is less than the percentage increase in the minimum wage. But if instead - as seems more plausible - the demand for such workers is elastic, then a hike in the minimum wage *reduces* the total amount of income earned by minimum-wage workers. Such workers then have less, not more, total income to spend.

Second, even if (as your argument assumes) the demand for labor is inelastic, the extra income earned by low-skilled workers comes from somewhere. This fact means that other people in the economy - employers whose profits fall because of their higher wage bills, and consumers who pay higher prices for the likes of fast food and motel rooms - must spend less elsewhere, thus likely offsetting the increased spending by minimum-wage workers.

Third, your argument assumes that all or most of the extra income received by minimum-wage workers is spent in ways that support each other's employment. To see why this assumption is illegitimate, ask yourself if you think that a legislated minimum price for bread will cause bakers to sell more, rather than less, bread. Do you think that if bakers as a group earn higher profits because of this legislation that they'll spend enough of those extra profits buying so much of each other's bread that the total amount of bread sold will rise beyond the level it achieved prior to the mandated hike in the price of bread? Both common sense and economic theory tell us that such an outcome is extraordinarily unlikely. Yet such an outcome is not much different from the one that you assume regarding the extra spending of minimum-wage workers.

Sincerely,
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13 March 2015

Mr. Marion Ellis

Dear Mr. Ellis:

You again assert that because corporations are now "sitting on mountains of cash" they will therefore pay the higher mandated minimum wage in full without adjusting their labor practices in any ways that harm low-skilled workers.

Much is wrong with your assertion, not least that you fail to ask why corporations are choosing now not to invest (as you say) "as much as they can." Presumably they find greater investment to be unduly risky or otherwise unlikely to yield sufficiently high returns. Therefore, a government mandate that artificially raises labor costs even further is likely to make corporations even less willing to invest than they already are.

But let me also ask if you favor a carbon tax to reduce CO_2 emissions. I judge from your many other e-mails that you do indeed favor such a tax. If so, given your belief that a higher minimum wage will simply be paid for out of "excess" corporate cash reserves, why do you not also believe that a carbon tax will simply be paid for out of these same "excess" cash reserves? That is, if you (correctly) understand that a government mandate that forces businesses to pay more for each unit of carbon they emit will cause businesses - regardless of their cash holdings - to reduce the amounts of carbon they emit, why do you think that a government mandate that forces businesses to pay more for each unit of low-skilled labor that they employ will *not* cause businesses to reduce the amounts of low-skilled labor that they employ? That's a first-rank inconsistency.

Sincerely,
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