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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16 December 2016

Editor, *Wall Street Journal*

1211 6th Ave.
New York, NY 10036

Dear Editor:

Matthew Burwell writes that “As long as the law of supply and demand remains in effect, importing massive numbers of foreign workers will necessarily depress wages” (Letters, Dec. 16). I stand second to none in admiring the explanatory power of supply-and-demand analysis. Yet for that analysis to work it must be used correctly. Mr. Burwell uses it incorrectly.

An increase in the supply of labor lowers wages only *if nothing else changes*. But when immigrants enter the workforce two very important other things change. First, immigrant workers spend or invest their earnings, both of which activities increase the demand for labor - thus putting upward pressure on wages. By focusing only on immigrants’ effect on the supply of labor, Mr. Burwell overlooks immigrants' effect on the demand for labor.

A second change is one that was emphasized by Adam Smith: larger supplies of workers, as well as more consumers of the economy’s output, lead to greater specialization. Jobs change. As Smith explained, this greater specialization makes workers more productive. This increased productivity, in turn, causes wages to rise.

If Mr. Burwell needs empirical evidence against his mistaken assertion that supply-and-demand analysis implies that more workers “necessarily depress wages,” he should consider that, in large part because of immigration, the population today of the 13 original U.S. states is more than 34 times larger than it was in 1776. And yet wages in these states today, far from being lower (as Mr. Burwell’s analysis would have it), are vastly higher than they were then.

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

18 December 2016

Mr. Mel Glenn

Mr. Glenn:

Thanks for your e-mail.

You accuse me of being “too rigid & dogmatic & inflexible” in my support of free trade.

Here’s a question for you. Suppose that you want to make a new sofa for your family. If you use work-method A, it will take you 500 hours to produce a sofa. If you use work-method B, it will take you 50 hours to produce an identical sofa. Which method will you choose, A or B? The answer is obvious: method B. And if I ask this question ten or ten-thousand times, the answer, I trust, will not change. Would you, therefore, be “too rigid & dogmatic & inflexible” in your support of work-method B? If you answer “no,” then you are well on your way to understanding why I am in fact not *too* “rigid & dogmatic & inflexible” in supporting free trade.

Trade, you see, is simply a method of production. You can produce a sofa directly, constructing it with your own hands. But if you aren’t a specialized furniture producer, the number of hours that it will take you to construct a good sofa will be enormous. Fortunately, you have available an attractive alternative method - a roundabout method - for constructing a good sofa: you can work at whatever it is you specialize in and then transform through trade some of your income into a sofa that you buy from a furniture maker. The amount of time that it will take you to earn the income necessary to buy a sofa from the furniture maker is much less than the amount of time that you need to construct a sofa with your own hands.

Do you believe that anyone has a right to force you to make your own sofa directly, and at greater cost, in opposition to your wish to make your sofa indirectly by working at your specialty and then transforming through trade some of your income into a sofa? And would you accuse someone who consistently defends your right to always choose whatever peaceful method of production is, for you, the least costly of being “too rigid & dogmatic & inflexible” in offering this defense?

If you again answer ‘no,’ then all you now need to understand is that when consumers buy imports, they are simply choosing to make things for themselves and their families using the lowest-cost methods of production available to them: they ‘make’ their consumer goods using the roundabout method of working at their specialties and then transforming through trade some of their incomes into these goods. Sometimes consumers trade with fellow citizens; other times they trade with foreigners. But in *all* cases the trades are the lowest-cost methods of production available to consumers for provisioning themselves and their families with the goods and services that they desire.

Why should the making of such choices *ever* be blocked?

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

19 December 2016

Mr. Ken S ___

Ken:

You ask why I oppose minimum wages despite the reality of what Café Hayek commenter Daniel Kuehn calls “search and matching frictions.” (“Search and matching frictions,” of course, are in this context frictions that prevent low-skilled workers from instantaneously switching from their current jobs to better jobs that are available. These frictions are said to give firms monopsony power over low-skilled workers - power that allows firms to underpay these workers and, thus, opens up in theory the possibility for minimum wages to raise workers’ wages without destroying a single job.)

Your question is good. I have, though, addressed this issue often at Café Hayek; see the first link* below my signature. But let me here summarize three main reasons for my rejecting the undoubted reality of search and matching frictions as a sound justification for minimum wages.

First, monopsony power is merely a necessary condition for minimum wages not to destroy jobs; it’s not sufficient. If minimum wages are not to destroy any jobs, employers - needing excess profits out of which to pay the higher labor costs - must also have permanent *monopoly* power in the markets in which they sell their outputs.** It is plain that monopoly power does not exist in reality in those industries that employ lots of low-skilled workers.

Second, another name for “search and matching frictions” is “profit opportunities.” Central to market processes are entrepreneurs who search for pure (that is, above-normal) profit in the only places that pure profit can be found, namely, in arrangements that can be, but haven’t yet been, improved to better satisfy human wants. If search and matching frictions do indeed loom large in labor markets, we can depend upon entrepreneurs to discover ways to make it easier for underpaid workers’ to find and seize these entrepreneurs’ better job offerings. Or more precisely: private entrepreneurs, spending their own money, are far more likely to accurately identify such profit opportunities than are academics with no skin in the game. Because entry into most of the industries that employ large numbers of low-skilled workers is quite easy, it is simply unbelievable that search and matching frictions loom so large in those labor markets as to make minimum wages economically justified.

Third, minimum wages themselves create search and matching difficulties for workers. By reducing the attractiveness to employers of using business plans calling for lots of low-skilled workers, minimum wages themselves increase workers' risks of quitting their current jobs. The reason is simple: minimum wages artificially reduce the number of jobs available for low-skilled workers. Therefore, workers fortunate enough to find jobs at the minimum wage are less likely than otherwise to risk quitting those jobs in order to search for better ones.

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/?s=minimum+wage+monopsony

** http://cafehayek.com/2013/02/quotation-of-the-day-538.html

23 December 2016

Irwin Stelzer opens his essay "Trump and Trade" (Dec. 19) with this recollection: "Protectionism, I once said to Irving Kristol, is a bad idea. It benefits producers, but it harms consumers. 'Where,' [Kristol] asked, 'is it written that the welfare of consumers takes precedence over that of producers?'"

Dr. Stelzer was and remains much-impressed by Mr. Kristol's reply. He shouldn't be. Mr. Kristol was wrong to equate the profits of producers with the welfare of consumers.

Mr. Kristol and Mr. Stelzer overlook the fact that consumption is the end while production is only the means. Therefore, means have value only insofar as they enable us to achieve our goals. Means that are less effective in enabling us to achieve our goals are less valuable than are means that are more effective. This is the reason why, for example, the price of an electric screwdriver is higher than is price of a manual screwdriver.

Profits and losses earned in markets measure each producer's effectiveness at enabling consumers to achieve their goals. When a producer suffers losses, these losses are the market's way both of informing that producer that it is serving consumers poorly and of motivating it either to perform better or to move into some other line of work. Without the information and motivation supplied by profits and losses, markets cannot function. Economies stagnate or even deteriorate.

By artificially swelling profits and preventing losses, protectionism mutes the information and motivation supplied by the profit-and-loss system. The end - consumer welfare - is sacrificed in order that some particular means be preserved independently of its effectiveness. But a means whose value is disconnected from the ends that it serves is a means whose effectiveness we cannot accurately assess. And no economy can thrive without accurate assessment of the effectiveness of alternative means of supplying consumers with the goods and services that are the ultimate purpose of economic activity.

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

28 December 2016

Mr. James Neweton

Dear Mr. Neweton:

Thanks for your e-mail. You write that you "suspend [your] free trade principles when [you] observe the Chinese stockpiling large amounts of bonds from our spendthrift government" with the dollars the Chinese earn from their exports to America.

With respect, principles ought not be jettisoned so quickly.

I agree that Uncle Sam borrows excessively. But the problem with excessive government borrowing is excessive government borrowing. The problem isn't the creditors, for it isn't the creditors - be they from Beijing or Boston - who cause Uncle Sam's current expenditures to exceed its current revenues.

It's possible - although I believe it to be ridiculously unlikely - that using trade restrictions to reduce the flow of dollars to China would so shrink the availability of credit on international markets that Uncle Sam would thereby be prompted to be more fiscally prudent. And such prudence would, indeed, be a real benefit. But it's far from clear that this benefit would outweigh the costs to American consumers of higher-priced and reduced-quality products at home, and of less access for American producers to foreign markets.

More fundamentally, it would be both a grotesque injustice, as well as a source of calamitously bad incentives, to use a government's fiscal profligacy as an excuse to grant that same government greater power to restrict its citizens' freedom to spend their money as they choose. Such a move would be akin to asking a playground brute to stop bullying his classmates, while simultaneously promising the brute that the more bullying he does, the greater will be the number of rocks, sticks, and knives that you'll make available to him.

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

29 December 2016

Editor, *Washington Post*

Dear Editor:

Catherine Rampell argues that (as the title of her essay explains) "Americans - especially but not exclusively Trump voters - believe crazy, wrong things" (Dec. 29). Indeed we Americans do believe many crazy, wrong things. But non-Trump voters are just as likely as are Trump voters to believe such things.

Here are some fantastical delusions suffered by voters from all across the political spectrum:

- When Uncle Sam restricts foreign producers' abilities to compete to serve ordinary American consumers he makes ordinary Americans richer rather than poorer;

- Americans are enriched the greater is the number of the fruits of our sweat, toil, and resources that we export to foreigners, and the fewer is the number of goods and services that we receive from foreigners in exchange;

- A growing U.S. trade deficit (which represents increasing foreign investment in America) not only is evidence of U.S. economic decline, but also hastens this decline;

- Immigrants who come to America to work - and, hence, who by working increase the total output of the American economy - weaken the American economy;

- When government imposes mandates such as minimum wages and paid family leave that artificially raise firms' costs of employing workers, firms never attempt to reduce these costs by employing fewer workers who are covered by these mandates;

- We Americans are too irresponsible to save for our own retirements (that is, too many of us, being undisciplined, spend excessively now and, hence, save too little for the future) and, therefore, we must have sizeable chunks of our incomes taxed from us and transferred to the prudent stewardship of the U.S. Congress, which would never dream of spending these funds now.

Wacky notions all.

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

30 December 2016

Editor, *Wall Street Journal*

1211 6th Ave.

New York, NY 10036

Dear Editor:

Reporting on looming increases in state and local minimum wages, you write that "Economists and policy makers are of two views on the costs and benefits of minimum-wage increases. While the policy puts more money in the pockets of low-wage workers, it also gives employers less incentive to add to their payrolls, leaving some workers behind" ("Minimum Wages Set to Increase in Many States in 2017," Dec. 30).

That's not quite correct. While it's almost certain that minimum wages reduce firms' willingness to employ low-skilled workers, it's by no means certain that "the policy puts more money in the pockets" of these workers. Most obviously, workers rendered unemployed by minimum wages find their pockets, not swelled, but drained. Yet even if we lump together all low-skilled workers and (with questionable legitimacy) consider them only as a group, the loss of incomes by workers rendered unemployed might well be greater than the gain in incomes of workers who remain employed at higher minimum wages. The result would be a net decline in low-skilled workers' total income (and, hence, a fall in such workers' consumption spending). Indeed, because each low-skilled job adds relatively little to an employer's bottom-line, and because these jobs are generally very easy to mechanize, there's a high likelihood that minimum wages over time cause such a large decrease in the employment of low-skilled workers that these workers' total income falls.

But regardless of the effect on the overall income of low-skilled workers, the bottom line is, rather than say (as you do), that "About 4.4 million low-wage workers across the country are slated to receive a raise," you should instead have said "About 4.4 million low-wage workers across the country are slated to be made artificially more costly to employ."

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