THE FREEMAN

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Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230; E-mail: freeman@fee.org
www.fee.org

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Perspective

Economists Against Economics

Five economists who either won the Nobel Prize in economics or who served as president of the American Economic Association—and three who did both—recently joined over 600 other economists in urging the federal government to increase the minimum wage. The signatures were gathered by the union-backed Economic Policy Institute (EPI), which unsurprisingly supports substantial government intervention in the economy.

I guess this is supposed to make us think more of the minimum wage. Instead, it makes me think less of the Nobel Prize in economics and the American Economic Association.

The economists claim the minimum wage "is based on the principle of valuing work by establishing an hourly wage floor beneath which employers cannot pay their workers."

That's gibberish. Legislating a wage floor is not a principle of valuing work. We value work according to the utility it produces. No law can change that. All the minimum wage does is decree: *If* you are going to buy labor services (a big *if*), you can't pay less than the law mandates.

In a free market a wage is agreed on through bargaining between an employer, who wants to pay as little as he must to obtain the labor's expected value, and a potential employee, who wants to be paid as much as he can get for his services. What they are willing to offer and accept depends on their expectations and other options. An unskilled worker's options can be expanded through the acquisition of skills, but also through competition for his present services.

Ultimately, an employer's ability to pay the wage depends on consumers' willingness to buy the good that emerges from the production process at a price that covers the (opportunity) costs of making it. If the market price of the good doesn't cover all the costs, no wages will be paid for long.

A wage, then, is the result of a transaction. If competition is free of political impediments, wages tend to reveal the discounted marginal value of particular labor services in the market. Indeed, competitive bidding is the only way to discover that value, which has meaning only through the market process. There is no external standard against which a market-set wage can be judged. Moreover, if the parties are (politically) free—that is, the system is void of physical force—the outcome satisfies the criteria of justice and fairness.

True, we don't have a fully free market, but the proper response should be to repeal the subsidies, taxes, regulations, and other privileges that suppress competition, capital investment, and hence the demand for labor. Replacing the rotten school system with a competitive education market would also help. Tinkering with the minimum wage distracts us from the real task at hand.

The economists also say "the minimum wage helps to equalize the imbalance in bargaining power that low-wage workers face in the labor market."

But it doesn't do that for workers who are dismissed because their productivity is perceived to be below the mandated wage. For the same reason, the minimum wage cannot be, as the statement claims, "an important tool in fighting poverty." Economic theory demonstrates—and endless studies illustrate—that if you raise the price of something, other things equal, less of it will be bought. When anti-smoking advocates want people to buy fewer cigarettes, they call for higher taxes so tobacco will cost more. How can demand curves slope downward for everything but unskilled labor?

The economists go on to state, "We believe that a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed."

The adverse effects referred to are job losses by unskilled workers and less entry-level job creation. Other adverse effects are possible. A firm may cut other costs in order to pay the higher minimum, but that cost-cutting may make things less pleasant for workers. For example, hours may be cut back or on-the-job-training could be canceled. The 650 economists might think the costs are worth the benefits, but should they be making that decision? What will they do personally to help those who actually bear the costs?

The economists' statement illustrates a problem identified by F. A. Hayek. At the banquet held the night before he was presented the 1974 Nobel Prize in economics, Hayek said: "I must confess that if I had been consulted whether to establish a Nobel Prize in economics, I should have decidedly advised against it. . . . [T]he Nobel Prize confers on an individual an authority which in economics no man ought to possess. . . . There is no reason why a man who has made a distinctive contribution to economic science should be omnicompetent on all problems of society—as the press tends to treat him till in the end he may himself be persuaded to believe."

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Universal health care is all the rage, but could it mean that only the healthy will get care? Jane Orient takes a close look.

A Christmas Carol is routinely held up to illustrate Charles Dickens's animosity to business. Not so fast, says William Pike.

So much good could be done at such a small cost per person if only government would put the money in the right place. Paul Cwik has a modest proposal.

One of the best-known public economists, John Kenneth Galbraith, died this year. No friend of the free market, Galbraith, yet David Henderson finds some things worth saying about him.

Many people have peace on their minds this time of year, and for Jim Peron the freedom philosophy is ultimately about peace.

Milton Friedman died in November, a great loss to the freedom movement. Richard Ebeling and I pay tribute.

Here's what's in the column department: Richard Ebeling assesses Milton Friedman's work. Lawrence Reed describes some heroes. Thomas Szasz discusses psychiatry as a branch of law. Robert Higgs retraces the journey from Armistice to Depression. Charles Baird looks at F. A. Hayek's views on unions. And Donald Boudreaux, hearing for the umpteenth time that the trade deficit is debt, responds, "It Just Ain't So!"

Our book reviewers consider works on the moral basis of freedom, economics during the New Deal, capitalist philosophers, and race.

Being December, the issue wraps up with the 2006 index, prepared by managing editor Beth Hoffman.

—*Sheldon Richman*

srichman@fee.org