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Comment on the Commentary of the Day

by

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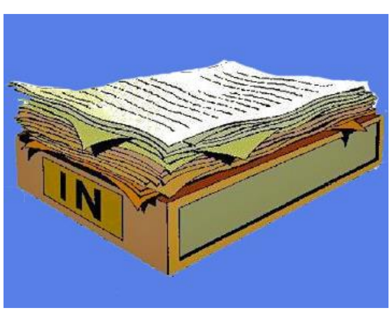

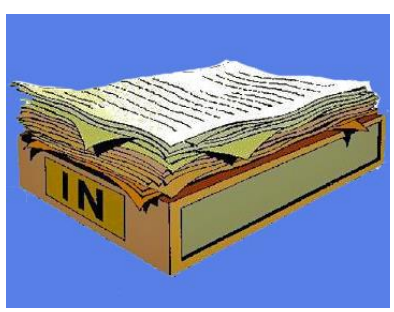

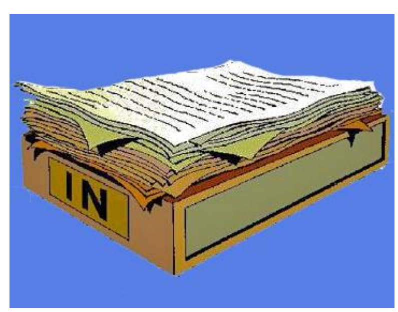

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21 May 2015

Editor, *The Washington Post*

Dear Editor:

Ruth Marcus is right and Elizabeth Warren is wrong: the secrecy of the negotiations leading to the Trans-Pacific Partnership trade agreement is a poor excuse to oppose that agreement ("A bogus argument against the trade deal," May 19).

Yet if Sen. Warren and her fellow Progressives really do worry that secret trade negotiations spawn corporate privileges and cronyism that deny ordinary Americans a say in their own economic affairs, they should call for a policy of unilateral free trade. Uncle Sam need negotiate with no foreign government or governments in order to eliminate the many tariffs and other restrictions it now imposes on Americans' commerce with foreigners. Our government can enact this policy on its own and in bright sunshine.

The unilateral elimination of these trade restrictions is by far the best way to achieve many of the worthy goals that Progressives claim to champion. A policy of unilateral free trade will instantly rid the U.S. economy of a principal species of corporate privilege and source of bloated profits - namely, protection from having to compete as vigorously as otherwise for customers. It also will give to each and every American the freedom to choose, openly and diversely, how to spend his or her money without any fear of compulsion exercised furtively on behalf of politically powerful corporations. The economic voice of American consumers will be amplified throughout the economy while that of corporations made far more quiet in the backrooms of Congress.

Sincerely,
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and
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30 May 2015

Editor, *Los Angeles Times*

Dr. Editor:

Fashion critic Booth Moore is clearly moved by Andrew Morgan's documentary, "The True Cost," which highlights the terrible work conditions and pay in third-world factories that manufacture the inexpensive clothing now enjoyed by denizens of rich countries ("'The True Cost' documentary tallies global effect of cheap clothes," May 28). Yet not once in her review of "The True Cost" does Ms. Moore ask the key question that is asked by those scholars who, above all others, think most deeply and consistently about true costs: economists. That question is "As compared to what?"

Compared to work conditions and pay today in rich countries such as the U.S. and Sweden, work conditions and pay today in developing countries are indeed awful. But despite being the one comparison that apparently is central to the film, this comparison is inappropriate and misleading. Instead, the relevant comparison is of third-world workers' current pay and work conditions with these workers' realistic alternatives. The fact that so many third-world workers willingly endure the harsh conditions and low pay that now prevail in third-world garment factories is powerful evidence that these workers' alternatives are even worse. Therefore, if Mr. Morgan and other activists succeed in their efforts to reduce the rich-world's demand for clothing produced in the third world, many third-world factory workers will personally suffer the true cost of rich-world-activists' economically ignorant concern for them - namely, being obliged to toil at jobs that pay even less and in conditions that are even dirtier and more dangerous.

Sincerely,
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31 May 2015

Mr. Marc Duval

Dear Mr. Duval:

Thanks for your kind e-mail....

To answer your question: I would still oppose minimum-wage legislation even if some miraculous means were devised to ensure that governments never erred in identifying the presence and degree of monopsony power, *and* if governments - by some means even more miraculous - could be confined to imposing minimum wages only when and where monopsony power were found to exist.

Monopsony wages and prices (like monopoly wages and prices) play a role that is at least as important as that which is played by competitive wages and prices. Monopsony wages are both a *signal* to entrepreneurs that some workers are currently underpaid in certain markets, and an *incentive* for these same entrepreneurs to move into those markets in order to profitably hire these underpaid workers away from their current employers. The result is that the monopsony power is whittled away while these workers' wages are competed upward.

Even perfectly designed and enforced minimum-wage legislation would not only thwart this potent market process of adjusting wages to their competitive levels, it would also *reinforce* the monopsony conditions that are the deeper problem. While a ‘perfectly’ set minimum wage, therefore, would push wages up to their correct levels - and, thus, cure one ill *symptom* of existing monopsony power - such a minimum wage would also destroy the natural market signals and incentives that guide and fuel the competitive market forces that would otherwise extinguish the monopsony power itself.

In short, even ideal minimum-wage legislation would work as a shield to protect monopsony power. Not good.

Sincerely,
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7 June 2015

Mr. Nick Hanauer

Dear Mr. Hanauer:

Criticizing as “goofiness” the economic case against the minimum wage, you exhibit an arrogance possessed only by people who opine on matters about which they know absolutely nothing (“Is trickle-down economics science or scam?” June 1). Here are two examples of your many flawed assertions.

First, contrary to your claim, the fact that Seattle's *overall* unemployment rate is on par with that of the rest of the country isn't evidence that that city's unusually high minimum-wage rate is not wreaking damage of the sort predicted by economic theory. Economic theory predicts that the minimum wage prices out of jobs only workers whose hourly output has a lower value than the minimum wage. The prediction is that only some low-skilled workers will lose jobs; it is *not* that the overall unemployment rate will rise. Both because the percentage of workers affected by the minimum wage is low (in a dynamic economy with countless changes happening every day) *and* because a rise in the minimum wage artificially raises the relative attractiveness to employers of hiring some kinds of unemployed workers (say, white teens from good school districts) while firing (or not hiring) other workers (say, blacks from poor school districts), the overall unemployment rate need not rise, and might even fall, when the minimum wage rises.

Second, the fact that the number of CEOs has increased along with CEO pay is also not - contrary to another of your assertions - evidence against economists' theory that higher wages prompt employers to economize on labor more than they would if wages were lower. Like all scientists, we economists carefully distinguish cause from effect - here, we distinguish factors that *cause* wages to rise on the market from the *effects* of higher wages mandated by government. A rise in the market demand for CEOs caused CEO pay to rise which, in turn, drew more talent in to the CEO market. Yet had government mandated a rise in CEO pay absent an increase in the market demand for CEOs, the effect would have been higher CEO unemployment.

The rise in CEO pay is no more a cause of increased market demand for CEO talent than is, say, the purchase of a yacht by a billionaire a cause of the billionaire's riches. And just as a policy to turn poor people into billionaires by forcing them to buy yachts would fail, a policy to raise low-skilled workers' pay by forcing them not to work at hourly wages below some dictated minimum will fail. Both policies are built on an unscientific confusion of cause with effect - or, as you might say, on a scam.

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