Notas

BOUDREAUX ON HIGH WAGES; A CRITIQUE

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Professor Don Boudreaux has made many contributions to promoting liberty and good economics including his refutations of common economic fallacies concerning unions, free trade, occupational licensure, and the minimum wage.

Yet, we must take issue with a recent column of his entitled «Do We Need to Bring Back the Reagan Years?» In it he offers what we consider several economic fallacies. We start off by repeating it in its entirety, one, because it is so short, and two, to obviate any possible misinterpretations. Then, we make clear our criticism of it.

Do We Need to Bring Back the Reagan Years?

By Don Boudreaux

Heard on the radio this morning while driving in northern Virginia:

We need policies to bring back the high-paying jobs this country lost since the Reagan years.

I missed the name and affiliation of the particular interviewee who issued this proclamation. Of course, this proclamation is, in one form or another, a familiar one. It trips frequently out of the mouths and off of the keyboards of politicians and pundits too numerous to count. Yet it is economic foolishness.

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High-paying jobs of the past were jobs producing goods and services that were unusually scarce. That is, those jobs were high-paying because the goods and services produced by the workers in those jobs were in such short supply relative to demand that consumers willingly paid high prices for those goods and services — and, therefore, firms paid high wages to workers who helped to produce those unusually scarce goods and services. It follows that «policies to bring back the high-paying jobs this country lost since the Reagan years» would be policies to make goods and services more scarce. They would be policies to bring back scarcity lost — the scarcity overcome — since the Reagan years.

Because worker productivity[1] over the past few decades in the United States has continued to rise, and because worker pay (contrary to some claims) has continued to keep pace with this increased productivity, to say that we «need to bring back the high-paying jobs this country lost» is to say that we need to bring back the high levels of scarcity this country has since overcome. It is to say that we need to be made poorer. The policies championed by this radio pundit — policies endorsed to one degree or another by Trump, Clinton, and hordes of other politicians who surf on the waves of public economic ignorance — would make all of us poorer in order to allow some of us to again be paid relatively handsome wages to ease the burden of the relative impoverishment of us all.

Put in yet a third and shorter way: this radio pundit, like too many other people, wrongly supposes that the road to widespread riches is paved with widespread impoverishment.

The above originally appeared at Cafe Hayek.

We now liberally quote *(in italics*) from the above, interspersed with our criticisms

> *«High-paying jobs of the past were jobs producing goods and services that were unusually scarce.»*

[1] This is usually interpreted as marginal revenue productivity (MRP). Strictly speaking, however, the correct phrase is discounted marginal revenue productivity (DMRP). See Block (1990) on this.

In our view, probably the best paying middle class jobs were in manufacturing, heavy industry, mining, and commercial construction. Yes, the goods were relatively scarce; i.e., the supply was relatively low compared to the demand, but only because the primary resource was provided by monopoly sellers; i.e., industrial and trade unions reduced the labor supply.

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No, no, no, just because goods are expensive does not necessarily mean that the productivity of the workers creating them, and thus their wages,[2] will be elevated. It is entirely possible that low skilled, and poorly paid workers can still produce pricey items. For example, hand-made rugs. Diamonds in some parts of Africa, etc.

Boudreaux has it exactly backwards, here; the firms had to pay high (union) wages to the workers thus making it necessary for them to reduce the supply of the relevant goods. The buyers, not just consumers, willingly paid the high prices for the artificially scarce goods; i.e., no one put a gun to their heads making them buy, but as with any demand, when the supply is restricted, the price goes up as the fewer goods are rationed to those who have the highest demand and are willing to pay the highest prices.

Next: it follows that «*policies to bring back the high-paying jobs this country lost since the Reagan years would be policies to make goods and services more scarce. They would be policies to bring back scarcity lost — the scarcity overcome — since the Reagan years.*»

This is silliness on stilts. The higher paying jobs were at the expenses of the masses who had to pay exorbitant prices; e.g., to purchase autos, so that the fortunate few in the United Auto Workers Union (UAW), United Steel Workers Union (USW), United Mine

[2] For a demonstration that wage levels are determined by worker productivity, see Bagus, 2004; Barnett and Block, 2006; Block, 1990; Gallaway and Vedder, 2005; Von Mises, 2010; undated; Newman, 2016; Whitehead and Block, 2002, 2004

Workers of America (UMWA), could be the kings of labor, with considerably higher standards of living than others of equal skill and effort.

However, if we bring back the lost jobs, it will merely reestablish the unfair union labor system *or* create more jobs in the rust-belt industries at competitive wages. The only way to create new jobs with high pay is to increase labor productivity. However, because of miracles of modern communications and transportation, labor in the US will have to compete with that of the rest of the world, unless we restrict foreign competition. The real key is massive increases in capital goods and human capital, worldwide. But, the elites/establishment/political-class/whatever-you-want-to-call-them will do all that they can to steal any gains for themselves via taxes, regulations, etc.

Moreover, there is no reason why someone doing a particular job in the US should earn more than another equally able person doing the same job in another country. Only if arbitrage can't work, either for natural reasons; e.g., transportation or other natural costs, or because of artificial considerations; e.g., tariffs, quotas, etc., can such wage differentials exist over the long haul. Perhaps the biggest problem is that no one, politicians, economists, etc., wants to tell the American public that we/they are not special and that there is no legitimate reason: i.e., no explanation save for natural barriers, that an auto worker, professor, waiter, chef, carpenter, plumber, etc. in the US should earn more than someone doing the same job in Mexico or China, or wherever.[3]

[3] At first blush this sounds erroneous. The critic might retort, the reason American workers tend to earn more money than their counterparts in many other countries is that their marginal revenue product is higher than that of people elsewhere. However, we stand by the statement in the text, since we place great weight on the word «arbitrage» and the phrase «equally able.» Under these very strict conditions, the tendency would be for the American member of the labor force to have the same productivity on average as his counterpart anywhere else. This assumption incorporates phenomenon such as IQ differences (Lynn and Vanhanen, 2002, 2006). It takes note of the fact that U.S. laborers live in a gigantic internal free trade zone (Black, 1981; Craig and Sailors, 1987; Drahozal, 1996; La Puma); in contrast, Canada suffers, relatively, from greater interprovincial barriers to trade (Dawson, 2015; McKenna, 2013; Valentine, 2002). Our strong assumption also incorporates the fact that American workers benefit from greater political stability than in many other nations (see Alesina, et al.

Here are some other flaws we see in this essay of Boudreaux's.

If people save more money, and more capital is created as a result, this will boost the productivity and hence remuneration, for labor. What is wrong with «high-paying jobs» emanating from this source? Nothing. Similarly, if President Trump adopts the policies we could have expected from Ron Paul, were he to have been elected, such as vastly lower taxes, fewer regulations, etc., investment would have come pouring into our country. This, too, will tend to increase wage levels. What is wrong with «high-paying jobs» emanating from this source? Again, nothing. Or, suppose some new Steve Jobs, or Bill Gates comes down the pike with new technical ideas, or a new Ray Kroc or Sam Walton creates a new way of bringing goods to market, or a new Henry Ford invents a better production method. All of these inventors and entrepreneurs made labor more productive, and hence led to greater wages. What is wrong with «high-paying jobs» emanating from this source? Nothing at all.

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1996; Global, 2015 (which ranks the US only 60th out of 191 countries.)). These considerations obviate obvious objections to the statement in the text.

Increases_Price_Increases_Decreases_or_Both_A_Critique_of_Baumol_on_Subsidies_to_the_Arts?ev=prf_pub

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