

Income

Income lends itself to considerable demagoguery because people do not understand the sources of income or at least often behave as if they do not. It is okay to speak of the distribution of income if one is speaking of it in a statistical sense. But many times we hear people speaking of the distribution of income as if there were a dealer of dollars. Thus, the income distribution is unfair because the dollar dealer deals one person many dollars and deals others few. Thus, justice requires a redealing of the dollars—income redistribution of the ill-gotten gains of the few to the many. In the honest-to-God real world, for the most part, income is earned through one's capacity to serve his fellow man—in a word, one's productivity. That person might serve his fellow man as a carpenter who would repair a house or a plumber who might fix a toilet or a chemist who might produce a drug. For doing so, his fellow man gives him dollars that we might think of as "certificates of performance" that serve as proof that one has served his fellow man. The greater his capacity to serve his fellow man, and the greater the value his fellow man places on those services, the greater the number of the certificates of performance received. Those certificates of performance enable the carpenter, plumber, or chemist to make claims on what his fellow man produces, be it a car, a television, or groceries. This method of deciding who gets what would appear to be the height of morality—the requirement that one serve his fellow man in order to have a claim on what his fellow man produces. That moral standard contrasts with government allocation, where the government, through the tax code, takes what one's fellow man produces to give it to another.

Aside from this moral issue is the distortion of facts about income. Listening to some politicians and talking heads lamenting the plight of America's middle class and poor, you would have to conclude that things are going to hell in a handbasket. According to them, there's wage stagnation and the rich are getting richer and the poor becoming poorer. According to a U.S. Treasury study of income tax returns from 1996 and 2005, controlling for inflation, nearly 58 percent of the poorest in-

come group in 1996 had moved to a higher income group by 2005. Twenty-six percent of them achieved middle or upper-middle class income, and more than 5 percent made it into the highest income group. This finding of income mobility continues the findings of other studies since 1960.

What about claims of a disappearing middle class? Controlling for inflation, in 1967, 8 percent of households had an annual income of \$75,000 and up; in 2003, more than 26 percent did. In 1967, 17 percent of households had a \$50,000 to \$75,000 income; in 2003, it was 18 percent. In 1967, 22 percent of households were in the \$35,000 to \$50,000 income group; by 2003, the number had fallen to 15 percent. During the same period, the \$15,000 to \$35,000 category fell from 31 percent to 25 percent, and the under \$15,000 category fell from 21 percent to 16 percent. The conclusion is that if the middle class is disappearing, it's doing so by swelling the ranks of the upper classes. In fact, at least in terms of absolute values, we are going to have to change the definition of what is middle class and make it higher.

There is no evidence for the canard that the poor are getting poorer. The evidence shows that, while the rich are getting richer, the poor are getting richer too. The average poor person has what most Americans could not afford as recently as thirty or forty years ago. In 1971, only about 32 percent of all Americans enjoyed air-conditioning in their homes. By 2001, 76 percent of poor people had air-conditioning. In 1971, only 43 percent of Americans owned a color television; in 2001, 97 percent of poor people owned at least one. In 1971, 1 percent of American homes had a microwave oven; in 2001, 73 percent of poor people had one. Forty-six percent of poor households own their homes. Only about 6 percent of poor households are overcrowded. The average poor American has more living space than the average nonpoor individual living in Paris, London, Vienna, Athens, and other European cities. Nearly 75 percent of poor households own a car; 30 percent own two or more cars. Seventy-eight percent of the poor have a VCR or DVD player; 62 percent have cable or satellite TV reception; and 33 percent have an automatic dishwasher. There is little or no poverty in America in either the global or the intertemporal sense. But, given that fact, to avoid being poor, according to current definitions of poverty, is not rocket

science. Just graduate from high school, work at any kind of job, do not have children before marriage, and stay away from criminal activity. The columns that follow address these and other income issues.

Should We Save Jobs?

Wednesday, January 26, 2005

Now that the elections are over, there's little political gain for demagoguery about jobs, but let's prepare ourselves for the next time. Losing a job means a financial crunch and readjustment regardless of the source of job loss. If it's not from an economic downturn, the loss might be a result of outsourcing, but much more likely, it's a result of technological innovation. Job destruction and job creation through natural market forces are enriching. Calling for Congress to save or create jobs is to court disaster.

Let's look at a bit of job-loss history. Anthony B. Bradley, a research fellow at the Grand Rapids, Mich.-based Acton Institute, has written an article on the subject, "Productivity and the Ice Man: Understanding Outsourcing." Citing the work of Forrester Research Inc., a technology research firm, Bradley says, "Of the 2.7 million jobs lost over the past three years, only 300,000 have resulted from outsourcing." Job losses and job gains have always been a part of our history.

Let's look at some of the history of job loss described in Bradley's article. We might also ponder whether measures should have been taken to save these jobs. In 1858, Lyman Blake patented a shoemaking machine that ultimately destroyed jobs hand-making shoes. In 1919, General Motors started selling Frigidaire. As Bradley says, "This 'electric ice box' wiped out a whole set of occupations, including ice-box manufacturers, ice gatherers, and the manufacturers of the tools and equipment needed to handle large blocks of ice."

Auto manufacturers use thousands of robots for tasks that people used to do such as spot welding, painting, machine loading, parts transfer and assembly. Robots have replaced thousands of workers in electronic assembly and in mounting microchips on circuit boards, reports Bradley.

We could probably think of hundreds of jobs that either don't exist or exist in far fewer numbers than in the past—jobs such as elevator operator, TV repairman and coal deliveryman. "Creative de-

struction” is a discovery process where we find ways to produce goods and services more cheaply. That in turn makes us all richer.

That same principle applies when it’s outsourcing serving as the engine for creative destruction. Daniel W. Drezner, assistant professor of political science at the University of Chicago, discusses outsourcing in “The Outsourcing Bogeyman” (*Foreign Affairs*, May/June 2004). Professor Drezner reports that for every dollar spent on outsourcing to India, the United States reaps between \$1.12 and \$1.14 in benefits. Why? U.S. firms save money and become more profitable, benefiting shareholders and increasing returns on investment. In the process, U.S. workers are reallocated to more competitive, mostly better-paying jobs.

Drezner also points out that large software companies such as Microsoft and Oracle have increased outsourcing and used the savings for investment and larger domestic payrolls. Nationally, 70,000 computer programmers lost their jobs between 1999 and 2003, but more than 115,000 computer software engineers found higher-paying jobs during that same period. By the way, when outsourcing doesn’t work, companies backtrack, as have Dell and Lehman Brothers, which have moved some of their call centers back to the United States from India because of customer complaints.

The last election campaign featured great angst over the loss of manufacturing jobs. The number of U.S. manufacturing jobs has fallen, but it has little to do with outsourcing and a lot to do with technological innovation—and it’s a worldwide phenomenon. During the seven years from 1995 through 2002, Drezner notes, U.S. manufacturing employment fell by 11 percent. Globally, manufacturing jobs fell by 11 percent. China lost 15 percent of its manufacturing jobs, and Brazil lost 20 percent. But guess what. Globally, manufacturing output rose by 30 percent during the same period. Technological progress is the primary cause for the decrease in manufacturing jobs.

What should a person do when innovation or international trade costs him his job? Do what the iceman did when Frigidaire cost him his job. Instead of calling on Congress to enact job protectionist measures, he did what was necessary to find another job.

The Temperamental Minimum Wage

Wednesday, May 9, 2007

The first fundamental law of demand postulates that the lower the price of something, the more will be demanded, and the higher the price, the less will be demanded. To my knowledge, there are no known exceptions to the law of demand. That was until last fall when 650 economists, including several Nobel Laureates, signed a letter calling for an increase in the minimum wage.

They said, “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.” I’m not sure if these 650 economists meant increases in the minimum wage will have no effect on the employment of low-wage workers or if they meant its magnitude won’t be large. If their argument is the former, I’m embarrassed for them.

Maybe these economists, like House Speaker Nancy Pelosi, see the law of demand as being somewhat temperamental—sometimes having an effect and sometimes not. This would be like a physicist suggesting that the velocity of light, in a vacuum, is temperamental—sometimes a constant and sometimes not. But they and Speaker Pelosi might have a point.

On Jan. 10, the House of Representatives voted to raise the minimum wage from \$5.15 to \$7.25 per hour. Their bill, for the first time, extended the federal minimum wage to the U.S. territory of the Northern Mariana Islands, but it exempted American Samoa, another U.S. Pacific Ocean territory. American Samoa would have been the only U.S. territory not subject to the federal minimum wage. If increases in the minimum wage, like my 650 fellow economists claim, are so helpful to low-wage workers, why deprive Samoan workers from the benefits? Are Speaker Pelosi and my fellow economists anti-Samoan?

StarKist Tuna, whose parent company is Del Monte, and Chicken of the Sea employ nearly 50 percent of the Samoan workforce. Sa-

moan cannery workers earn about \$3.50 an hour. I'll give you one guess what would happen if the minimum wage were raised to \$7.25 an hour. Here's a hint: The average cannery wage in Thailand is 67 cents an hour, and in the Philippines, it's 66 cents. If you guessed that StarKist and Chicken of the Sea might move their operations to Thailand or the Philippines, go to the head of the class. Perhaps Speaker Pelosi agrees that mandating a higher wage would have an unemployment effect, but just in Samoa.

There's a better explanation for Speaker Pelosi's position that has nothing to do with the possible fickleness of the law of demand. StarKist, which owns one of the two Samoan packing plants, has been a big opponent of increases in the U.S. minimum wage. Del Monte, its parent company, is headquartered in Speaker Pelosi's San Francisco district. Chicken of the Sea is based in Southern California. It's not unreasonable to guess that Speaker Pelosi's position has to do with the interests of her well-heeled constituents. In any case, Samoans are off the hook for now because the proposed legislation enacting a higher minimum wage didn't pass Congress.

Many minimum wage supporters, like the Speaker, are hypocrites, but most supporters are decent people with an honest concern for the well-being of their fellow man. True compassion for our fellow man requires that we examine not the intentions behind public policy but the effects of that policy. There's no question that Congress can mandate the minimum wage at which a person is hired, but Congress hasn't found a way to mandate that a person have a level of productivity commensurate with the wage. Moreover, Congress hasn't chosen to mandate that an employer hire a person whose productivity is less than the minimum wage. This means higher minimum wages cause unemployment for the least-skilled workers.

Economists on the Loose

Wednesday, July 18, 2007

On July 11, *New York Times* reporter Patricia Cohen wrote an article titled, “In Economics Departments, a Growing Will to Debate Fundamental Assumptions.” The article begins with, “For many economists, questioning free-market orthodoxy is akin to expressing a belief in intelligent design at a Darwin convention: Those who doubt the naturally beneficial workings of the market are considered deluded or crazy.” Cohen then reports interviews with several prominent economists, one being Princeton professor Alan Blinder, former vice chairman of the Federal Reserve Bank.

Professor Blinder said, “What I’ve learned is anyone who says anything even obliquely that sounds hostile to free trade is treated as an apostate.” Continuing his criticisms of mainstream economists, he adds that efforts to intervene in markets, such as mandatory minimum wages, industrial policy and price controls, are also viewed negatively.

First, let’s establish a working definition of free markets; it’s really simple. Free markets are simply millions upon millions of individual decision-makers, engaged in peaceable, voluntary exchange pursuing what they see in their best interests. People who denounce the free market and voluntary exchange, and are for control and coercion, believe they have more intelligence and superior wisdom to the masses. What’s more, they believe they’ve been ordained to forcibly impose that wisdom on the rest of us. Of course, they have what they consider good reasons for doing so, but every tyrant that has ever existed has had what he believed were good reasons for restricting the liberty of others.

Tyrants are against the free market because it implies voluntary exchange. Tyrants do not trust that people acting voluntarily will do what the tyrant thinks they ought to do. Therefore, they want to replace the market with economic planning, or as Professor Blinder calls it—industrial policy.

Economic planning is nothing more than the forcible superseding of other people's plans by the powerful elite. For example, I might plan to purchase a car, a shirt or apples from a foreign producer because I see it in my best interest. The powerful elite might supersede my plan, through import tariffs and quotas, because they think I should make the purchases from a domestic producer.

My daughter might plan to work for the hardware guy down the street for \$4 an hour. She agrees; he agrees; her mother says it's OK, and I say it's OK. The powerful elite say, "We're going to supersede that plan because it's not being transacted at the price we think it ought be—the minimum wage."

Cohen also interviewed Professor David Card, saying that he's done "groundbreaking research on the effect of the minimum wage." Literally hundreds of studies show that increases in the minimum wage cause unemployment for the least-skilled worker, a group dominated by teenagers, particularly black teenagers. But Professor Card's study asserts that increases in minimum wage actually increase employment. Besides the fact that reviews of his study show flawed statistical techniques, that assertion doesn't even pass the smell test. If it did, then whenever there's high unemployment, anywhere in the world, governments could eliminate it by mandating higher minimum wages.

Robert Reich, President Clinton's labor secretary, said that economists who question free market theories really "want to speak to the reality of our time." That's incredible. Reality doesn't depend on whether it's 1907 or 2007. Reich probably thinks the reality of the laws of demand depends on what year it is. I wonder whether he thinks the reality of the laws of gravity does as well.

The ideas expressed by economists interviewed by Cohen, while out of the mainstream of a large majority of economists, are solidly in the mainstream of mankind's traditional vision. Throughout history, the right to pursue one's goals in a peaceable, voluntary manner, without direction, control and coercion, has won a hostile reception. There's little older in history than the idea that some should give orders and others obey.

Are the Poor Getting Poorer?

Wednesday, October 31, 2007

People who want more government income redistribution programs often sell their agenda with the lament, “The poor are getting poorer and the rich are getting richer,” but how about some evidence and you decide? I think the rich are getting richer, and so are the poor.

According to the most recent census, about 35 million Americans live in poverty. Heritage Foundation scholar Robert Rector, using several government reports, gives us some insights about these people in his paper: “Understanding Poverty and Economic Inequality in the United States” <http://www.heritage.org/Research/Welfare/bg1796.cfm>.

In 1971, only about 32 percent of all Americans enjoyed air conditioning in their homes. By 2001, 76 percent of poor people had air conditioning. In 1971, only 43 percent of Americans owned a color television; in 2001, 97 percent of poor people owned at least one. In 1971, 1 percent of American homes had a microwave oven; in 2001, 73 percent of poor people had one. Forty-six percent of poor households own their homes. Only about 6 percent of poor households are overcrowded. The average poor American has more living space than the average non-poor individual living in Paris, London, Vienna, Athens and other European cities.

Nearly three-quarters of poor households own a car; 30 percent own two or more cars. Seventy-eight percent of the poor have a VCR or DVD player; 62 percent have cable or satellite TV reception; and one-third have an automatic dishwasher.

For the most part, long-term poverty today is self-inflicted. To see this, let’s examine some numbers from the Census Bureau’s 2004 Current Population Survey. There’s one segment of the black population that suffers only a 9.9 percent poverty rate, and only 13.7 percent of their under-5-year-olds are poor. There’s another segment of the black population that suffers a 39.5 percent poverty rate, and 58.1 percent of its under-5-year-olds are poor.

Among whites, one population segment suffers a 6 percent poverty rate, and only 9.9 percent of its under-5-year-olds are poor. Another segment of the white population suffers a 26.4 percent poverty rate, and 52 percent of its under-5-year-olds are poor.

What do you think distinguishes the high and low poverty populations? The only statistical distinction between both the black and white populations is marriage. There is far less poverty in married-couple families, where presumably at least one of the spouses is employed. Fully 85 percent of black children living in poverty reside in a female-headed household.

Poverty is not static for people willing to work. A University of Michigan study shows that only 5 percent of those in the bottom fifth of the income distribution in 1975 remained there in 1991. What happened to them? They moved up to the top three-fifths of the income distribution—middle class or higher. Moreover, three out of 10 of the lowest income earners in 1975 moved all the way into the top fifth of income earners by 1991. Those who were poor in 1975 had an inflation-adjusted average income gain of \$27,745 by 1991. Those workers who were in the top fifth of income earners in 1975 were better off in 1991 by an average of only \$4,354. The bottom line is, the richer are getting richer and the poor are getting richer.

Poverty in the United States, in an absolute sense, has virtually disappeared. Today, there's nothing remotely resembling poverty of yesteryear. However, if poverty is defined in the relative sense, the lowest fifth of income-earners, "poverty" will always be with us. No matter how poverty is defined, if I were an unborn spirit, condemned to a life of poverty, but God allowed me to choose which nation I wanted to be poor in, I'd choose the United States. Our poor must be the envy of the world's poor.

Income Mobility

Wednesday, December 5, 2007

Listening to people like Lou Dobbs, John Edwards and Mike Huckabee lamenting the plight of America's middle class and poor, you'd have to conclude that things are going to hell in a hand basket. According to them, there's wage stagnation, while the rich are getting richer and the poor becoming poorer. There are a couple of updates that tell quite a different story.

The Nov. 13 *Wall Street Journal* editorial "Movin' On Up" reports on a recent U.S. Treasury study of income tax returns from 1996 and 2005. The study tracks what happened to tax filers 25 years of age and up during this 10-year period. Controlling for inflation, nearly 58 percent of the poorest income group in 1996 moved to a higher income group by 2005. Twenty-six percent of them achieved middle or upper-middle class income, and over 5 percent made it into the highest income group.

Over the decade, the inflation-adjusted median income of all tax filers rose by 24 percent. As such, it refutes Dobbs-Edwards-Huckabee claims about stagnant incomes. In fact, only one income group experienced a decline in real income. That was the richest one percent, who saw an income drop of nearly 26 percent over the 10-year period. The editors explain that these people might have been rich for a few years, had some capital gains, or could not stand up to the competition with new entrepreneurs and wealth creators.

The U.S. Treasury study confirms previous studies dating back to the 1960s, concluding, "The basic finding of this analysis is that relative income mobility is approximately the same in the last 10 years as it was in the previous decade." As such, it points to a uniquely American feature: Just because you know where a person ended up in life doesn't mean you can be sure about where he started. Most of today's higher income and wealthy did not start out that way.

What about claims of a disappearing middle class? Let's do some detective work. Controlling for inflation, in 1967, 8 percent of house-

holds had an annual income of \$75,000 and up; in 2003, more than 26 percent did. In 1967, 17 percent of households had a \$50,000 to \$75,000 income; in 2003, it was 18 percent. In 1967, 22 percent of households were in the \$35,000 to \$50,000 income group; by 2003, it had fallen to 15 percent. During the same period, the \$15,000 to \$35,000 category fell from 31 percent to 25 percent, and the under \$15,000 category fell from 21 percent to 16 percent. The only reasonable conclusion from this evidence is that if the middle class is disappearing, it's doing so by swelling the ranks of the upper classes.

What about the concentration of wealth? In 1918, John D. Rockefeller's fortune accounted for more than half of one percent of total private wealth. To compile the same half of one percent of the private wealth in the United States today, you'd have to combine the fortunes of Microsoft's Bill Gates (\$53 billion) and Paul Allen (\$16 billion), Oracle's Larry Ellison (\$19 billion), and a third of Berkshire Hathaway's Warren Buffett's \$46 billion. In 1920, America's richest one percent held about 40 percent of private wealth; by 1980, the private wealth held by the richest one percent fell to about 20 percent and has remained stable at that level since.

Demagogues duping Americans about stagnant and declining income give politicians justification to raise taxes and place regulatory obstacles in the path of risk-taking, productivity and hard work that will impede the enviable income mobility that has become a part of American tradition. Raising taxes on capital formation reduces the rate of capital formation. Raising taxes on income reduces incentives to work. Unfortunately, because so many Americans buy into the politics of envy, politicians have a leg up in enacting measures that cripple economic growth.

The Poverty Hype

Wednesday, January 4, 2006

Despite claims that the rich get richer and the poor get poorer, poverty is nowhere near the problem it was yesteryear—at least for those who want to work. Talk about the poor getting poorer tugs at the hearts of decent people and squares nicely with the agenda of big government advocates, but it doesn't square with the facts.

Dr. Michael Cox, economic adviser to the Federal Reserve Bank of Dallas, and Richard Alm, a business reporter for the *Dallas Morning News*, co-authored a 1999 book, *Myths of Rich and Poor: Why We're Better Off Than We Think*, that demonstrates the pure nonsense about the claim that the poor get poorer.

The authors analyzed University of Michigan Panel Study of Income Dynamics data that tracked more than 50,000 individual families since 1968. Cox and Alms found: Only five percent of families in the bottom income quintile (lowest 20 percent) in 1975 were still there in 1991. Three-quarters of these families had moved into the three highest income quintiles. During the same period, 70 percent of those in the second lowest income quintile moved to a higher quintile, with 25 percent of them moving to the top income quintile. When the Bureau of Census reports, for example, that the poverty rate in 1980 was 15 percent and a decade later still 15 percent, for the most part they are referring to different people.

Cox and Alm's findings were supported by a U.S. Treasury Department study that used an entirely different data base, income tax returns. The U.S. Treasury found that 85.8 percent of tax filers in the bottom income quintile in 1979 had moved on to a higher quintile by 1988—66 percent to second and third quintiles and 15 percent to the top quintile. Income mobility goes in the other direction as well. Of the people who were in the top one percent of income earners in 1979, over half, or 52.7 percent, were gone by 1988. Throughout history and probably in most places today, there are whole classes of people who remain permanently poor or permanently rich, but not in

the United States. The percentages of Americans who are permanently poor or rich don't exceed single digits.

It doesn't take rocket science to figure out why people who are poor in one decade are not poor one or two decades later. First, they get older. Would anyone be surprised that 30, 40 or 50-year-olds earn a higher income than 20-year-olds? The 1995 Annual Report of the Federal Reserve Bank of Dallas found that "Average income tends to rise quickly in life as workers gain work experience and knowledge. Households headed by someone under age 25 average \$15,197 a year in income. Average income more than doubles to \$33,124 for 25- to 34-year-olds. For those 35 to 44, the figure jumps to \$43,923. It takes time for learning, hard work and saving to bear fruit."

The Federal Reserve Bank of Dallas report listed a few no-brainer behaviors consistent with upward income mobility. Households in the top income bracket have 2.1 workers; those in the bottom have 0.6 workers. In the lowest income bracket, 84 percent worked part time; in the highest income bracket, 80 percent worked full time. That translates into: Get a full-time job. Only seven percent of top income earners live in a "nonfamily" household compared to 37 percent of the bottom income category. Translation: Get married. At the time of the study, the unemployment rate in McAllen, Texas, was 17.5 percent, while in Austin, Texas, it was 3.5 percent. Translation: If you can't find a job in one locality, move to where there are jobs.

The Federal Reserve Bank of Dallas report concludes, "Little on this list should come as a surprise. Taken as a whole, it's what most Americans have been told since they were kids—by society, by their parents, by their teachers."

Minimum Wage, Maximum Folly

Wednesday, April 26, 2006

About a fortnight ago, Mrs. Williams alerted me to an episode of Oprah Winfrey's show titled "Inside the Lives of People Living on Minimum Wage." After a few minutes of watching, I turned it off, not because of the heartrending tales but because most of what was being said was dead wrong. Let's look at it.

The show claims that 30 million Americans earn the minimum wage of \$5 an hour. Actually, the federal minimum wage is \$5.15 an hour, and 17 states mandate a higher minimum wage that approaches \$7 an hour. At one point, Oprah did manage to clear up this aspect of the show's errors.

The U.S. Department of Labor reports: "According to Current Population Survey estimates for 2004, some 73.9 million American workers were paid at hourly rates, representing 59.8 percent of all wage and salary workers. Of those paid by the hour, 520,000 were reported as earning exactly \$5.15" (<http://www.bls.gov/cps/minwage2004.htm#2>).

Workers earning the minimum wage or less tend to be young, single workers between the ages of 16 and 25. Only about two percent of workers over 25 years of age earn minimum wages.

According to the U.S. Bureau of Labor Statistics: Sixty-three percent of minimum wage workers receive raises within one year of employment, and only 15 percent still earn the minimum wage after three years. Furthermore, only 5.3 percent of minimum wage earners are from households below the official poverty line; forty percent of minimum wage earners live in households with incomes \$60,000 and higher; and, over 82 percent of minimum wage earners do not have dependents.

The U.S. Department of Labor also reports that the "proportion of hourly-paid workers earning the prevailing Federal minimum wage or less has trended downward since 1979."

Another issue that's not often taken into consideration is there's a difference between what a worker takes home in pay and his total

compensation. Employers must pay for legally required worker benefits that include Social Security, Medicare, unemployment insurance, workers' compensation, health and disability insurance benefits, and whatever paid leave benefits they offer, such as vacations, holidays and sick leave. It's tempting to think of higher minimum wages as an anti-poverty weapon, but such an idea doesn't even pass the smell test. After all, if higher minimum wages could cure poverty, we could easily end worldwide poverty simply by telling poor nations to legislate higher minimum wages.

Poor people are not poor because of low wages. For the most part, they're poor because of low productivity, and wages are connected to productivity. The effect of minimum wages is that of causing unemployment among low-skilled workers. If an employer must pay \$5.15 an hour, plus mandated fringes that might bring the employment cost of a worker to \$7 an hour, does it pay him to hire a person who is so unfortunate as to have skills that permit him to produce only \$4 worth of value per hour? Most employers would view hiring such a person as a losing economic proposition.

Two important surveys of academic economists were reported in two issues of the *American Economic Review*, May 1979 and May 1992. In one survey, 90 percent, and in the other 80 percent, of economists agreed that increasing the minimum wage causes unemployment among youth and low-skilled workers.

Minimum wages can have a more insidious effect. In research for my book "South Africa's War Against Capitalism" (1989), I found that during South Africa's apartheid era, racist unions, who'd never admit blacks, were the major supporters of higher minimum wages for blacks.

Gert Beetge, secretary of South Africa's avowedly racist Building Worker's Union, in response to contractors hiring black workers, said, "There is no job reservation left in the building industry, and in the circumstances I support the rate-for-the-job [minimum wages] as the second best way of protecting our white artisans." Racists recognized the discriminatory effects of mandated minimum wages.

I'm trying to figure whether ineptitude explains the errors in Oprah's show or is a deliberate attempt to mislead.

Are CEOs Overpaid?

Wednesday, March 2, 2005

In the wake of the Enron and WorldCom corporate scandals, the purveyors of envy have found another opportunity to preach about what they consider the evils of high CEO salaries, retirements and bonuses. After all, according to them, evil must be afoot when a corporate executive earns more in a week that the average worker earns in an entire year. Let's look at it.

Dishonest Enron and WorldCom CEOs are rare among corporate executives. As such, all CEOs shouldn't be tarnished for the misdeeds of a few any more than we'd tarnish all newspaper reporters because a few among their ranks were liars like the *Boston Globe's* Patricia Smith and Mike Barnicle, Jayson Blair of the *New York Times*, and the *Washington Post's* Janet Cooke.

Is a CEO worth millions of dollars to a corporation? When Jack Welch became General Electric's CEO in 1981, the stock market judged the company to be worth about \$14 billion. Through hiring and firing, buying and selling, Welch turned the company around before he retired in 2001. Today, GE is worth nearly \$500 billion, making it one of the most valuable companies in the world. What's a CEO worth for providing the brains and leadership to turn a \$14 billion corporation into one worth \$500 billion? How about paying just a measly one-half of a percent of the increase in value? If that were the case, Welch's total compensation would have come to nearly \$2.5 billion instead of the few hundred million that he actually received.

The Gillette Co. was in the early stages of corporate death in 2001 when Jim Kilts took over as CEO. The company's stock had lost almost half of its value in two years, and sales volume and market shares of its major brands had plummeted. Between the time Kilts took over at Gillette and this year's Jan. 28 announcement of Procter & Gamble's purchase of Gillette, Gillette's market value increased by \$11.3 billion, a 34 percent improvement, and since the announcement, Gillette's value has risen by another \$5.7 billion.

Kilts' salary and bonuses over the past four years, totaling about \$17.5 million, haven't been especially large by CEO standards. Predictably, however, Kilts' pay and particularly the size of his compensation package from the merger—\$153 million—have been the subject of media carping, particularly in Boston, where Gillette is headquartered. This figure is indeed large, but it, added to what Gillette has paid him since 2001, makes Kilts' total compensation a mere 1.5 percent of his contribution to Gillette's value.

Here are a couple of questions to you: If you were the owner of GE, and a CEO could turn your \$14 billion corporation into a \$500 billion one, how much would you be willing to pay that man in salary and bonuses? Or, in the case of Jim Kilts, turning Gillette from a corporation in steep decline into one Procter & Gamble was willing to buy for \$57 billion, how much would you be willing to pay?

Then, you might ask yourself: If a corporate board of directors could buy a \$300 computer that could do what a CEO could do, would it pay CEOs millions of dollars? By the same token, if an NFL owner could hire a computer to make the decisions that star quarterbacks make, why would he pay some of these guys yearly compensation packages worth more than \$10 million?

There's another important issue. If one company has an effective CEO, it is not the only company that would like to have him on the payroll. In order to keep him, the company must pay him enough so that he can't be lured elsewhere. If you ask me, I know of only one class of workers who are overpaid and under worked—college professors.

How Not To Be Poor

Wednesday, May 11, 2005

Ministers Louis Farrakhan, Jesse Jackson, Al Sharpton, Washington, D.C.'s Mayor Anthony Williams and others recently met to discuss plans to celebrate the 10th anniversary of the October 1995 Million Man March. Whilst reading about the plans, I thought of an excellent topic for the event: how not to be poor.

Avoiding long-term poverty is not rocket science. First, graduate from high school. Second, get married before you have children, and stay married. Third, work at any kind of job, even one that starts out paying the minimum wage. And, finally, avoid engaging in criminal behavior. If you graduate from high school today with a B or C average, in most places in our country there's a low-cost or financially assisted post-high-school education program available to increase your skills.

Most jobs start with wages higher than the minimum wage, which is currently \$5.15. A man and his wife, even earning the minimum wage, would earn \$21,000 annually. According to the Bureau of Census, in 2003, the poverty threshold for one person was \$9,393, for a two-person household it was \$12,015, and for a family of four it was \$18,810. Taking a minimum wage job is no great shakes, but it produces an income higher than the Bureau of Census' poverty threshold. Plus, having a job in the first place increases one's prospects for a better job.

The Children's Defense Fund and civil rights organizations frequently whine about the number of black children living in poverty. In 1999, the Bureau of the Census reported that 33.1 percent of black children lived in poverty compared with 13.5 percent of white children. It turns out that race per se has little to do with the difference. Instead, it's welfare and single parenthood. When black children are compared to white children living in identical circumstances, mainly in a two-parent household, both children will have the same probability of being poor.

How much does racial discrimination explain? So far as black poverty is concerned, I'd say little or nothing, which is not to say that every vestige of racial discrimination has been eliminated. But let's pose a few questions. Is it racial discrimination that stops black students from studying and completing high school? Is it racial discrimination that's responsible for the 68 percent illegitimacy rate among blacks?

The 1999 Bureau of Census report might raise another racial discrimination question. Among black households that included a married couple, over 50 percent were middle class earning above \$50,000, and 26 percent earned more than \$75,000. How in the world did these black families manage not to be poor? Did America's racists cut them some slack?

The civil rights struggle is over, and it has been won. At one time black Americans did not have the same constitutional protections as whites. Now, we do, because the civil rights struggle is over and won is not the same as saying that there are not major problems for a large segment of the black community. What it does say is that they're not civil rights problems, and to act as if they are leads to a serious misallocation of resources.

Rotten education is a severe handicap to upward mobility, but is it a civil rights problem? Let's look at it. Washington, D.C. public schools, as well as many other big city schools, are little more than educational cesspools. Per student spending in Washington, D.C., is just about the highest in the nation. D.C.'s mayors have been black, and so have a large percentage of the city council, school principals, teachers and superintendents. Suggesting that racial discrimination plays any part in Washington, D.C.'s educational calamity is near madness and diverts attention away from possible solutions.

Bill Cosby had the courage to speak out against individual irresponsibility. Surely those who profess to have the best interests of blacks at heart should be able to summon the courage to do so as well.

Dead-End Jobs

Wednesday, November 30, 2005

Certain jobs are derisively referred to as “burger flipper” or “dead-end” jobs. I’d like someone to define a dead-end job. For example, I started out as a professor of economics at California State University, Los Angeles and then at Temple University and for the past 25 years at George Mason University. It seems as though my employment might qualify as a dead-end job, for all I’ll ever be is a professor of economics.

Those who demean so-called dead-end jobs probably aren’t talking about my job. They’re mockingly referring to jobs such as clerks at Wal-Mart, hotel workers, and food handlers and counter clerks at McDonald’s. McJobs is the term applied to these positions. The term has even found its way into Merriam-Webster and the encyclopedia Wikipedia. Putting down so-called dead-end jobs is a destructive insult to honest work.

How dead-end is a McDonald’s job? Jim Glassman, an American Enterprise Institute scholar, wrote an article in the Institute’s June 2005 *On The Issues* bulletin titled “Even Workers with ‘McJobs’ Deserve Respect.” He listed some well-known former McDonald’s workers. Among them: Andy Card, White House chief of staff; Jeff Bezos, founder and CEO of Amazon.com; Jay Leno, “Tonight Show” host; Carl Lewis, Olympic gold medalist; Joe Kernan, former Indiana governor; and Robert Cornog, retired CEO of Snap-On Tools. According to Glassman, some 1,200 McDonald’s restaurant owners began as crew members, and so did 20 of McDonald’s 50 top worldwide managers. These people and millions of others hardly qualify as dead-enders.

The primary beneficiaries of so-called McJobs are people who enter the workforce with modest or absent work skills in areas such as: being able to show up for work on time, operating a machine, counting change, greeting customers with decorum and courtesy, cooperating with fellow workers and accepting orders from supervi-

sors. Very often the people who need these job skills, which some of us might trivialize, are youngsters who grew up in dysfunctional homes and attended rotten schools. It's a bottom rung on the economic ladder that provides them an opportunity to move up. For many, the financial component of a low-pay, low-skill job is not nearly as important as what they learn on the job that can make them more valuable workers in the future.

Some demagogues charge that jobs at Wal-Mart and McDonald's only pay the minimum wage. That's plain wrong, as are many other things said about jobs that start at the minimum wage. According to the U.S. Bureau of Labor Statistics: Sixty-three percent of minimum wage workers receive raises within one year of employment, and only 15 percent still earn the minimum wage after three years. Moreover, only three percent of all hourly workers and two percent of wage and salary earners earn minimum wages. Most minimum wage earners are young—53 percent are between the ages of 16 and 24.

Furthermore, only 5.3 percent of minimum wage earners are from households below the official poverty line; 40 percent of minimum wage earners live in households with incomes of \$60,000 and higher, and over 82 percent of minimum wage earners do not have dependents. My stepfather used to tell me that any honest work was better than begging and stealing. As a young person, I worked many jobs from shining shoes and picking blueberries to delivering packages and washing dishes. Today's tragedy for many a poor youngster is that the opportunities I had for learning the world of work and moving up the economic ladder have either been destroyed through legislation or demeaned by today's do-gooders.

Income Inequality

September 13, 2004

Last month the U.S. Bureau of Census reported its findings on income and poverty. Median real income remained constant between 2002 and 2003 at \$43,000; the official poverty rate rose slightly from 12.1 percent to 12.5 percent for a total of 36 million Americans; poverty rates by race remained unchanged at 8 percent among whites, blacks 24 percent and Hispanics 22 percent. Dr. Daniel H. Weinberg, Bureau of Census Division Chief, added that income inequality remained unchanged with the lowest 20 percent of households (\$18,000 and below) earning 3.5 percent of national income and the highest 20 percent (\$86,900) about 50 percent.

The poverty report gives vice-presidential hopeful, Senator John Edwards, a little fodder for his “Two Americas” stump speech. That’s the one where he says, “[There’s] one America that does the work, another America that reaps the reward. One America that pays the taxes, another America that gets the tax breaks.” This is demagoguery and unadulterated dishonesty that can only appeal to the misinformed and ignorant.

Let’s look at who doesn’t pay taxes. According to a study done by Scott Hodge, President of the Washington, D.C.-based Tax Foundation, and his colleagues, 41 percent of whites, 56 percent of blacks, 59 percent of American Indian and Aleut Eskimo and 40 percent Asian and Pacific Islanders will have no 2004 federal income tax liability. The Tax Foundation study concludes, “When all of the dependents of these income-producing households are counted, there are roughly 122 million Americans—44 percent of the U.S. population—are outside of the federal income tax system.”

Who does pay federal income taxes? The top 20 percent of income-earners pay 80 percent and the top 50 percent pay 96.5 percent of total federal income taxes. Given these figures about who does and does not pay federal income taxes, what are we to make of John Edwards’ stump speech? He’s right in one sense. One group of Ameri-

cans, those at the top, who work and pay virtually all federal income taxes and another group, those at the bottom, who work and pay little or no federal income taxes.

There's another issue about income inequality. If it's your vision that out there somewhere there's a pile of money to be divided among Americans, the reason the top fifth of Americans have much more than the bottom fifth is that they got to the pile of money first and took an unfair share. Justice, of course, would require that their ill-gotten gains be confiscated and redistributed to their rightful owners. But in a free society income is mostly determined by one's ability and willingness to produce goods and services that satisfy his fellow man. The top fifth of income earners (earnings greater than \$84,000) are not only more productive, and have higher skills and education than the bottom fifth of income earners, they work more hours and have more people in their household working.

There's something else that's gets little attention. There's considerable income mobility in our country. According to IRS tax data, 85.8 percent of tax filers in the bottom fifth in 1979 had moved on to a higher quintile, and often to the top quintile, by 1988. Income mobility goes in the other direction as well. Of the people who were in the top one percent of income earners in 1979, over half, or 52.7 percent, were gone by 1988.

Here's my question to you. What are we to make of politicians, and other charlatans and quacks, who are knowingly dishonest and use the politics of envy to exploit American ignorance for political gain? It's immaterial whether you're for George Bush or for John Kerry winning the White House, but do you think politicians running on the politics of envy bodes well for the future of our country?

From Whence Income?

April 21, 2003

Here's part of a letter from a reader: "A hard-working, conscientious person can earn \$10,000 a year in a fast-food restaurant. At the same time, movie stars and athletes, who make very little contribution to society, can earn in excess of \$10,000,000 a year. A baseball player earns more with every swing of the bat than many people do in a year." The reader's inference is that there's something unfair about income differences of such magnitude. It also reflects ignorance about the sources of income in a free society; that's music to the ears of political demagogues with an insatiable taste for command and control.

I think some of the ignorance and much of the demagoguery stems from the usage of the phrase "income distribution." It might make some people think income is distributed; in other words there's a dealer of dollars. The reason that some people have few dollars while others have millions upon millions is that the dollar dealer is unjust. An alternative vision might be that there's a pile of money intended for all of us. The reason why some are rich and some are poor is that the greedy rich got to the pile first and took their unfair share. Clearly, in either case, justice would require a re-dealing, or redistribution, of the dollars where the government takes ill-gotten gains of the few and returns them to their rightful owners.

Most people, except a few congressmen, would view those explanations of the sources of income as nonsense. In a free society, for the most part, income is earned. It's earned by serving and pleasing one's fellow man. Why is it that Michael Jordan earns \$33 million a year and I don't even earn one-half of one percent of that? I can play basketball but my problem is with my fellow man who'd plunk down \$200 to see Jordan play and wouldn't pay a dollar to see me play. I'm also willing to sell my name as endorsements for sneakers and sport clothing but no one has approached me.

The bottom line explanation of Michael Jordan's income relative

to mine lies in his capacity to please his fellow man. The person who takes exception to Jordan's salary or sees him, as my letter writer does, as making "little contribution to society," is really disagreeing with decisions made by millions upon millions of independent decision makers who decided to fork over their money to see Jordan play. The suggestion that Congress ought to take part of Jordan's earnings and give them to someone else is the same as arrogantly saying, "I know better who ought to receive those dollars."

Another part of the explanation for Jordan's high salary is simply a matter of supply and demand. If there were tens and tens of millions of people with Jordan's talents, you can rest assured he wouldn't be earning \$33 million a year. And similarly you can bet that if people really valued hamburgers and there were only a few people with those skills, they'd be earning much more than they currently earn.

We might think of dollars as being "certificates of performance." The better I serve my fellow man, and the higher the value he places on that service, the more certificates of performance he gives me. The more certificates I earn the greater my claim on the goods my fellow man produces. That's the morality of the market. In order for one to have a claim on what his fellow man produces, he must first serve him. Contrast that moral standard to Congress's standing offer, "Vote for me and I'll take what your fellow man produces and give it to you."

The Morality of Markets

May 5, 2003

My recent column “From Whence Comes Income” sparked considerable favorable reader response, not to mention thoughtful reader correction of my grammar error in the title: “From Whence” is redundant. Quite a few readers were a bit confused about my assertion that market allocation of goods and services are infinitely more moral than the alternative.

The first principle of a free society is that each person owns himself. You are your private property and I am mine. Most Americans probably accept that first principle. Those who disagree are obliged to inform the rest of us just who owns us, at least here on earth. This vision of self-ownership is one of those “self-evident” truths to which the Founders referred to in the Declaration of Independence that “All Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness.” Like John Locke and other philosophers who influenced them, the Founders saw these rights as preceding government and they said, “That to secure these Rights, Governments are instituted.” The Framers of the Constitution recognized that while government was necessary to secure liberty it was also liberty’s greatest threat. Having this deep suspicion of government, they loaded our Constitution with a host of anti-congressional phrases such as: “Congress shall make no law,” “shall not be infringed,” and “shall not be violated.”

Once one accepts the principle of self-ownership, what’s moral and immoral becomes self-evident. Murder is immoral because it violates private property. Rape and theft are also immoral; they also violate private property. Here’s an important question: Would rape become morally acceptable if Congress passed a law legalizing it? You say, “What’s wrong with you, Williams? Rape is immoral plain and simple no matter what Congress says or does!”

If you take that position, isn’t it just as immoral when Congress

legalizes the taking of one person's earnings to give to another? Surely if a private person took money from one person and gave it to another, we'd deem it theft and as such immoral. Does the same act become moral when Congress takes people's money to give to farmers, airline companies or an impoverished family? No, it's still theft, but with an important difference: it's legal and participants aren't jailed.

Market allocation of goods and services depends upon peaceable, voluntary exchange. Under such exchanges the essence of our proposition to our fellow man is: If you do something I like, I'll do something you like. When such a deal is struck, both parties are better off in their own estimation. Billions of these propositions are routinely made and carried out each day. For example, take my trip to the grocery store. My proposition to the grocer is essentially: "If you make me feel good by giving me that gallon of milk you own, I'll make you feel good by giving you three dollars that I own." If my proposition is accepted, the grocer is better off since he values the \$3 more than the milk and I'm better off since I value the milk more than the \$3.

Contrast the morality of market exchange with its alternative. I might go to my grocer with a pistol and propose: give me a gallon of milk or I'll shoot you. Or, I might lobby Congress to take his milk and give it to me. Either way I'm better off but the grocer is worse off.

Less there's misunderstanding there are legitimate and moral functions of government, namely that of preventing the initiation of force, fraud and intimidation and we're all duty-bound to cough up our share of the cost. All other matters in our lives should be left to civil society and its institutions.

The Politics of Envy

November 4, 2002

In his *New York Times Magazine* (10/20/02) article titled “For Richer: The Disappearing Middle Class,” Princeton University economist Professor Paul Krugman wrote, “For the America I grew up in—the America of the 1950’s and 1960’s—was a middle-class society, both in reality and in feel. The vast income and wealth inequalities of the Gilded Age had disappeared. . . . Daily experiences confirmed the sense of a fairly equal society. The economic disparities you were conscious of were quite muted.” Professor Krugman’s vision of income inequality and the disappearing middle class is an excellent example of the classroom propaganda college professors use to exploit America’s immature and inexperienced youth. Let’s look at it.

A no-brainer is if the middle class has disappeared or is disappearing, means that America has become or is becoming a country where there’s only the rich and the poor—like a Third World country. I’d like to see Krugman’s evidence.

Krugman sees the 50s and 60s as a time of a “fairly equal society.” Even if his observations were factually true, so what. Does it mean that the average person enjoyed a higher standard of living? The fact of business is that the 20th century has been the best ever for all Americans. Cato Institute scholars Stephen Moore and the late Julian Simon document this in *It’s Getting Better All The Time*. Let’s take a small sample of their evidence.

The average life expectancy in 1900 was 47 years. Today it is 77, and rising. The infant-mortality rate has dropped from 1 in 10 to 1 in 150. Americans who’re considered poor have routine access to a quality of food, health care, consumer products, entertainment, communications and transportation that even the Vanderbilts, Carnegies and Rockefellers could have only dreamed of. Rich people have always had servants to spare them the drudgery of having to beat the dust out of rugs; the advent of vacuum cleaners spared the common man of that kind of drudgery. Henry Ford became very rich but the

benefits reaped by the common man by being able to afford an auto trivialized whatever gains were reaped by Ford. Air conditioning and air travel, as late as the 50s, was something for the well-to-do; now half of poor people have air conditioning, travel by air and more than half own automobiles. In the 19th century, almost all teenagers toiled in factories or fields. Now, 9 in 10 attend high school. Today's Americans have three times more leisure time than their great-grandparents did. The price of food relative to wages has plummeted: In the early part of this century the average American had to work two hours to earn enough to purchase a chicken, compared with 20 minutes today.

College professors, politicians and others whose agenda calls for increased government control over our lives promote the lie that things are getting worse. If we buy into that lie, we'll kill the goose that lays the golden eggs. We might ask ourselves: why is it that so much of the progress of the past 100 years has originated in America? Moore and Simon provide a simple but compelling answer: "The unique American formula of individual liberty and free enterprise has cultivated risk taking, experimentation, innovation, and scientific exploration on a grand scale that has never occurred anywhere before."

Finally, let's keep in mind that inequality of income is a result and if we looked at the distribution of productivity, which economists haven't been able to do very well, we might not be surprised by inequality of income. In other words, how surprised would you be if I told you that I know how to play basketball, and I try hard, but nobody is willing to equalize incomes by paying me as much as Michael Jordan earns?