Conflicting Visions

People generally share common goals. Most of us want: poor people to enjoy higher standards of living, greater traffic safety, fewer wars, greater racial harmony, cleaner air and water, and less crime.

Despite their common goals, more often than not we see people grouped into factions, fighting tooth and nail to promote differing government policies. The policies are often unproductive and have the unintended consequence of sabotaging the goal.

A good example of this conflict is found in the periodic debates over the minimum wage and tariffs. Many people profess concern for the welfare of low-skilled workers. To achieve their goal of helping those workers, one group adamantly demands that Congress legislate higher minimum wages. Another group professing the identical concern is just as adamant in demanding that Congress *not* legislate higher minimum wages. Similarly, one group of advocates for greater employment opportunities might lobby Congress for higher tariffs and stricter quotas on imports. Another group sharing the identical goal will fight against tariffs and quotas and lobby for fewer trade restrictions.

Why do people, who are assumed to be honest, intelligent, selfless, and not motivated by a hidden agenda, arrive at polar-opposite policy proposals as a means to achieve commonly shared goals that may indeed produce polar-opposite results? One possible explanation in the case of unions and companies seeking protection from imports is that they are dishonest and simply promoting their own interests. Their political strategy is to express concern for the unskilled and to lobby for greater employment opportunities simply as a ruse to conceal their true agenda: higher wages, profits, and monopoly wealth.

But there's another answer. They share different visions of how the world works. Consider the effects of different visions by going back to a time prior to Pythagorean and Ptolemaic proofs that the earth was round. Imagine two honest and intelligent people in 1000 B.C. One person's premise is that the earth is flat. Based on that premise, he would argue strenuously that it is not possible to sail west from Greece and reach the Orient. The other person, whose premise is that the world is round, would argue just as strenuously that it is possible to reach the Orient by sailing west from Greece.

Given the premise, the conclusions (one can or cannot reach the Orient by sailing west from Greece) are internally consistent and logical. After all, if the world is flat, one would sail right off the edge and into the abyss before reaching the Orient. On the other hand, if the earth is round, the trip can be safely made. Incidentally, before one condemns the flat-earth vision it should be noted that, while inaccurate, it was nonetheless useful, providing reliable navigation over relatively short distances.

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Of course, the flat-earth vision was ultimately laid to rest when people actually circumnavigated the globe. Also, scientific evidence and simple empiricism weighed in to settle the debate. People saw that the shadow of the earth on the moon during eclipses was round, and they also saw that the mast of a ship approaching from the sea is visible before the hull. The incorrect vision about the shape of the earth was demolished by falsifying its premise—not by questioning the internal consistency of the arguments.

Often the underlying premises supporting the conclusions of some arguments are so baseless they are deliberately left unstated. In these cases, they must be teased out by questions such as: for that conclusion to hold, what assumptions are being made about human behavior? Consider the minimum-wage debate. Assuming that both proponents and opponents of higher minimum wages are guided solely by an honest concern for low-wage, low-skilled workers, what is the premise held by those who favor increases in the minimum wage versus that held by opponents? If one's premise (stated or not) is that employers need a certain number of employees to do a particular job, the logic behind increasing the minimum wage as a means to raise incomes of low-skilled workers is internally consistent. The effect of a higher minimum wage would be higher wages for workers and lower profits for employers.

Opponents of higher minimum wages have a different premise. They assume that employers are responsive to changes in labor costs. They believe that there are alternative methods to accomplish a particular task. Employer responses to higher labor costs might include: substitution of capital for labor (automation), employment of self-service techniques (such as self-service gas stations), relocation to a country that has cheaper labor, use of disposable utensils instead of washable ones, fewer theater ushers, and automatic elevators. These and many other substitutes allow employers to economize on labor and produce fewer employment opportunities for low-skilled workers.

The vision that higher mandated wages (that exceed productivity) produce no employment effects also assumes that investors are insensitive to the company's profits and customers are insensitive to higher product prices. Neither is likely. If companies are required to pay higher wages and make no response they will see their profits decline relative to companies that do respond. In turn, investors will see a reduction in their return on equity and will likely move their capital elsewhere.

The company might try to forestall declining profits by attempting to recover higher labor costs by raising product prices. However, consumers are not insensitive to higher prices. They will seek cheaper substitutes, thereby reducing the company's sales. In the wake of higher minimum wages, surviving companies will be those that have found ways to economize on labor.

Zero Elasticity of Response

The premise that employers are not responsive to changes in the cost of labor is what economists call a zero elasticity of response. Put another way, changes in the independent variable (wages) have no effect on the dependent variable (the number of workers hired). There is little evidence that people are insensitive to price changes, whether it be changes in taxes, gas prices, food prices, labor prices, or any other price. The issue is not whether people change their behavior when relative prices rise or fall; it is always how soon and how great the change. Thus with minimum-wage increases it is not an issue of whether firms will economize on labor, it is how much they will economize and who will bear the burden of that economizing.

Thus, it is easy to see how two groups of honest and caring people with the same concern for low-skilled, low-wage workers can advocate opposite policies. They simply have different visions of how the world works. Convincing people how the world really works, in the hopes of promoting better policies, requires examining and debunking false visions and premises—a yeoman's task. □