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Pandering to ignorance

By Richard W. Rahn

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If the price of oranges increases, would you expect the quantity sold to rise or fall? I expect most of you reading that question would answer, "sales would fall," because you were either taught the law of demand or intuitively understand that when prices rise people will spend less (there are a few rare exceptions).

Congress is expected to increase the minimum wage. This will make it more expensive to hire workers; hence, some people who would have obtained work now will not. Think about your own home. You can either clean the outside windows and gutters yourself or hire someone to do it. Most able-bodied people will do it themselves if they think the price will be too expensive to hire someone; but on the other hand, even those who would normally do it themselves might hire someone else if the fee charged were small enough. We, as individuals and business people, all understand that we will hire more people if the wage asked is low, rather than high.

However, many of our representatives in Congress, and much of the media, are in denial about this most basic proposition in economics -- the law of demand -- when applied to labor. Some in Congress will deny a minimum wage increase will cause more unemployment, and others that it will not cause much more unemployment and everyone deserves a "living wage" (whatever that may mean). Listening to the Sunday morning news shows, I was struck that both Rep. Charles Rangel, a New York Democrat who will be Ways and Means Committee chairman, and Mississippi's Sen. Trent Lott, a Republican and the new Senate Republican Whip, said we need to increase the minimum wage.

I have been acquainted with these two gentlemen for many years and am quite sure they understand the law of demand. Why then would they deliberately advocate a law that will cause the least skilled people in their districts to be unable to get a job?

Most minimum-wage earners are teenagers and new labor force entrants, including unskilled immigrants, lacking job disciplines and skills. The good news is that most will quickly pick up the necessary skills and soon earn more than the minimum. Despite the hype, very few adults are trying to support a family on the minimum wage alone. I expect Mr. Lott and Mr. Rangel are well aware of all this but find it easier to pander to labor

unions and the media by seeming compassionate. They demand a higher minimum wage, though they know it will raise unemployment among those with the fewest options.

Mr. Lott, Mr. Rangel and most other politicians have learned it is easier to be re-elected by merely pandering to the ignorance of the people rather than take time to educate them (President Reagan and Prime Minister Thatcher were exceptions to this rule). If they and their colleagues really believe increasing the minimum wage does not increase unemployment, they would be advocating a minimum wage of at least \$10 per hour (or why not make everyone well off with a minimum wage of \$100 per hour)?

The Democrats have also announced they want Medicare to negotiate prescription drug prices with the pharmaceutical companies. Again, this sounds nice, but many prescription drugs are primarily purchased by those older than 65, all of whom are covered by Medicare. If you only have, in effect, one buyer for your product, that buyer (the U.S. government in this case) can set the price -- which is another way of saying, "price control." The pressure will be for the government to set the price so low the pharmaceutical companies will not be able to fully recoup all their development costs and earn a normal risk adjusted rate of return.

Responding to this negative turn of events, the companies are likely to cut back on research spending, particularly for very risky projects that could give us the greatest benefit. The result will be less innovation, and thus more lives needlessly lost.

We have records going back to the Roman times of attempts to impose price controls. They have always resulted in shortages and inferior products or services. Yet, again, the politicians find it easier to cater to economic ignorance than to do the responsible thing.

The only hope for more sensible economic policymaking is to increase public literacy about basic economics. The public school system has failed at this and is likely to continue failing so long as it is controlled by a political class with a vested interest in ignorance.

The good news is that the Internet and related communication technologies have brought down the cost of communication to the point where well-motivated people and institutions in the private sector can now increase economic literacy, if they are sufficiently clever, without state involvement.

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