



Episode 430: Robert Reich Dead Wrong on \$15/Hour Campaign

Guest: Bob Murphy

WOODS: We're going to be linking on today's show notes page, TomWoods.com/430, to the article you wrote about this video, but we're going to be expanding on that article. This video by Robert Reich, I just told people about – the \$15/hour thing. And it's funny, as I was going through watching the video, I was making notes and thinking of arguments I would make in response, and then I read your piece and the arguments are of course quite similar, but yours is much more colorful than mine would have been, in terms of your analogies. You are very, very good with analogies. You're almost at Schiff level, I would say, with analogies.

MURPHY: Well, I try. I'm still young.

WOODS: (laughing) That's right. I already explained to people about this series of videos. This is the one on the \$15/hour minimum wage, but there are many, many other videos that he has either made in this series or simply on his own or in interviews. You see him linked everywhere on Facebook, so people have been practically begging me to get you on and start taking on some of these Robert Reich videos, so we decided to talk about this \$15/hour one, because this is becoming a fashionable cause.

It really is everywhere. And it is so incredibly destructive. The arguments in favor of it can seem superficially plausible. Oh, well studies have shown such and such, and of course, it will help the economy, because people will have more money in their pockets, and so on and so forth. Let's begin with the great moral principle that Reich identifies at the beginning of the video, that he claims all Americans believe in. What is that great moral principle, and what's wrong with it?

MURPHY: Right, yeah, he says "a majority," but he makes it sound like you know, the majority of people who are decent human beings.

WOODS: Okay, yeah.

MURPHY: (laughing) So he says –

WOODS: So not you and me, obviously.

MURPHY: Well, right, obviously, yeah. And he says that there's this moral principle that all Americans or a majority of Americans, whether Republican, Democrat, or Independent – so even right there, that just throws me, that that's the way he's thinking – is that no one who works fulltime should be in poverty, nor should their family. And so obviously he's laying down that marker and saying – he's sort of guaranteeing his conclusions, because now it's sort of like, well, given that no one wants to be immoral; we want to live in a moral society, so then how do we guarantee this outcome? And then to him, it's obvious; the one obvious thing is that you have the guarantee of a \$15 minimum wage.

WOODS: I want you to give examples from your piece, because they're so good, that help us understand why this seemingly benign statement is actually hopelessly confused.

MURPHY: Sure, so the main philosophical point I think is to say it really doesn't make sense. It can't be true that for a society to be moral – first of all, the society's not moral; it means the individuals are performing actions that are moral or immoral. But for everyone to be behaving morally, it can't be necessary that anyone who works fulltime in such a world or amongst such people necessarily is above poverty, because poverty is something that is partly dependent on the physical world and resources at your disposal and technology and so forth.

It's not merely a matter of morality. Like, you could say, to live in a moral world, everyone agrees that you shouldn't eat your neighbor. Or you can't go and slaughter kittens for sport. That makes sense. But it doesn't make sense to say in a moral society, anyone who works fulltime necessarily will live above poverty.

So I gave an exaggerated example just to make the point. I said, what if a giant asteroid hits the Earth, kicks up all kinds of dust and soot, and blocks out sunlight – so, you know, crops don't grow and you can see the ramifications on the food chain. I said in that kind of catastrophic situation, surely over the next several months, billions of people would die, and that's not because the governments around the world all of a sudden decided to behave immorally or more immoral than they were the month before. It's because of technological constraints and scarcity. And that's just the way it is. And so in such a world, there'd be plenty of people who could be working fulltime, and they would starve to death, and so would their kids, and that wouldn't be a reflection on the inhumanity of man; it would just be, wow, it's terrible that asteroid hit.

So I'm just trying to get people to see that there are objective features of the world and that to just try to mix morality and people's physical conditions and how much they get paid for an hour of their labor, that's really mixing things inappropriately.

WOODS: And of course, it would mean that basically nobody lived in a moral society up until maybe the 20th century, because if you think of the conditions people have lived in since the beginning of recorded history, basically nobody has been able to live outside of poverty, no matter how many hours they worked, because of the physical

constraints that they face in a world of scarcity. So the idea that this could be the criterion of what's moral is a category mistake. I like – tell me about the example involving two employees, one with no kids at all, and the other has 15 children, because this is a really good example.

MURPHY: Okay, well thank you, Tom. That's why I like being on your show.

WOODS: (laughing)

MURPHY: No other host compliments me as much as you do per minute. So again, this is the kind of thing where – and that's partly why I resisted even doing these videos, because as you were saying, the thing that you told me, Tom, that a lot of people have been emailing me and sending messages on Facebook, that, oh, Reich's got this series – but they're so silly, I don't even feel like doing it. But I said, okay, let me try to think of new angles to show why these arguments are so absurd, because we all know the textbook supply and demand curves.

So I said, all right, if it's really true as Reich says, that a worker who works fulltime ought to live above poverty and his family, then I said, okay, that means – let's say we've got two workers. They're working at the same place of business for the same boss, and they're doing the same job. There are two different guys doing very similar things, next to each other, perhaps, on an assembly line. And one worker has no kids, and the other worker has 15 kids.

So another tenet of progressive thought is "equal pay for equal work." And so I'm saying, surely, if these two workers are doing the same job, then you would think that they have to get paid the same. And yet, the one guy with 15 kids clearly needs more income to keep him and the 15 kids out of poverty than the guy with no kids. And so what happens there? So I said, well, I suppose one escape hatch is to say, oh, well pay the guy with 15 kids enough to make sure he and his kids are above the poverty line, but then pay the exact same dollar amount per hour to the guy with no kids, because you also have to satisfy the equal pay for equal work.

And I said, so isn't that odd then that means if you were in a society that was just barely meeting the moral criterion, that the wages of millions of low-skilled workers would be determined on the margin by how many kids – the guy with the most kids in the country happens to have? And if, like, he has another kid, then the next day, millions of people have to get a raise, because he's got to get a raise –

WOODS: Yeah, I would be pushing for that guy to have as many children as possible, because that would – we'd all get a raise, and that would improve everybody's standard of living, the more children that that guy has. So that is a good point. Then you have – and again, I know people are waiting for us to get into the strictly economic arguments, which we will. But the way of thinking here is just so – I mean, juvenile? I don't know quite what the word is.

You say, "What if the person who works fulltime is doing a bad job?" Would we be violating Robert Reich's widely held moral principle if the employer can fire this person? Because presumably, even Reich would admit that if a worker shows up, as you say, for 40 hours a week, and then — I'm quoting you — "but does nothing except swear at customers and light inventory on fire, that the employer is allowed to fire the guy and pay him \$0."

"Well, if Reich is okay with an employer paying \$0/hour to a worker who contributes nothing, what about a worker who contributes only \$14 per hour?" So here's your point: "Why is it immoral for an employer to only pay such a worker \$14/hour in wages" if that's what that person produces? What would be wrong with that? And how do we know that everybody who's worth talking about, apparently, produces at least \$15/hour worth of value? Has he investigated this? If so, how?

MURPHY: Right, and so maybe just to say that in slightly different terms, again, what I'm trying to get people to see is that it's true; if there's someone who's really working hard and just, man, is struggling — has a bunch of kids or whatever — yeah, everybody is rooting for that person and wants the person to do well, doesn't want such a person to live in poverty. But the point is to say, how can that be a moral principle, because clearly, in other scenarios, we can easily imagine that if a worker is producing a low amount of output or value to the employer, the employer is allowed to not just give charity to the person. And so it's crystal clear in a case where the worker is being a jerk and is not contributing, that the employer is allowed to fire the person.

But what if there's somebody with five kids who shows up to work and swears at customers and lights the inventory on fire; the employer lays the person off; no employer voluntarily wants to hire a person — are we living in an immoral society? The person could say, hey, I'm willing to show up to work for 40 hours a week. And so, I mean, this alleged moral principle just starts cracking when you try to apply it.

And this really is having to do with economics, in the sense of just showing Reich has no idea how wage rates are set, and is he even seriously thinking beyond step one in these principles that he's throwing out, which is kind of shocking, since he was the Secretary of Labor. You'd think he would have the first inkling of how labor markets work.

WOODS: Now, let's move on to the more strictly economic arguments here. He says that if anybody is worried that a \$15/hour minimum wage is going to have disemployment effects on people who are lower skilled and, by implication, maybe can't produce \$15 worth of value to an employer per hour, we shouldn't worry about this, because he says, "More money in people's pockets" —that is, if people are earning these higher wages — "means more demand for goods and services, which means more jobs." So he looks at the economy in this extremely simplistic way, that the economy is just dollar bills buying consumer goods, and then people are employed, and then they buy consumer goods, and that's the entire economy.

Now, what you point out here is that there's no nuance in this argument at all. He is simply saying that increasing wages will mean more money in people's pockets, which will mean more jobs, when they go out to buy things with that money. What exactly is – I think there is more than one problem with that, but tell me one.

MURPHY: So one thing is that again, if there's no caveat, there's no nuance – he didn't say something like, well, there are different forces at work, and on-balance, if we raise the minimum wage from \$7.25/hour to \$15/hour, the influence of workers having more money, and since they don't save much, to go spend it and raise demand, that will more than offset the disemployment effects from the fact that their labor is now more expensive. And so on-balance, I think that that will help employment. He doesn't say that. He just says, flat out, no, this is – he calls it "fear mongering," to say that a higher minimum wage will result in disemployment.

And then he gives the argument you just said of, no, actually on the contrary, more money in workers' pockets will mean more jobs. And so if that's true, if it's a win-win, then why not push it up to \$50/hour? Or at least why not keep pushing up the federal minimum wage until unemployment is basically 0%? I mean, I suppose you could have the argument that once everybody has a job, then there's no further job gains to be had. But the point is, he doesn't give any nuance and so, in this case, it is entirely appropriate to just exaggerate it and say, okay, why don't we just push it up to \$30/hour?

Because the arguments that Reich is giving allow for that. It's not our responsibility to get into his head and say, oh well actually, he could have said such and such. That's not what he said. The whole point of this video is to make it look like any opposition to a \$15 minimum wage is just completely from a Neanderthal perspective from people who are either lying or idiots. And so the fact that he's making arguments on their own terms that would justify a \$50 minimum wage, I think is definitely a strike against it. So that's one huge problem.

I mean beyond that, there's the whole issue of it's a Keynesian mentality, just saying, oh the thing that generates employment and jobs is having workers go spend money and not save it. So that's entirely wrong too. Clearly the way people – if you want to get full employment, you just have flexible wage rates. It doesn't – you don't need to make sure there's adequate demand for final goods and services. That's not really the important thing. You need to have flexible wages.

WOODS: And if you want to imagine what the economy would look like if we focused entirely on consumption, which is what he's doing here – all we need to think about here is somehow getting money into the pockets of workers, so that they can go out and buy things. Like, that's the economy according to him in this video, and according to many vulgar Keynesians in the media.

Well, then imagine an economy where I've got some dollar bills and I go and spend them on a hat. But the hat maker does not plow any of that money back into his business. He takes that money and he buys three cartons of milk. And the milk

producer buys a new shirt, and the shirt producer — But no wages are paid, because that's not consumption. No capital maintenance is undertaken, because that's not consumption. No new businesses are opened, because that's not consumption. You would see that immediately the capital structure would collapse. Or not immediately, but pretty darn quickly. And we would revert to barbarism. So obviously there's a little bit more to the economy than just circulating dollar bills around.

Also, I've given this example: if it's true that we are just making people wealthier by artificially increasing the wages we pay them, then why don't we artificially increase the amount of money we pay to the lumber industry? Why don't we say that lumber prices should be raised by the government as well? Because then if we give more money to people in the lumber industry, they'll have more money in their pockets, and when they go and spend that money; that will create more jobs, and that'll be great. And then maybe we could make even more jobs by increasing the prices of steel and lumber and plastic and everything, because then all those people will have a lot of money to spend.

You'll see what the problem with this is that the more money that we have to spend on these things, the less profitable we are, and the more rickety the whole structure is. So this is — there are all kinds of problems with it. But before we —

MURPHY: If I could jump in, unfortunately, though, a lot of progressives would endorse that argument if it comes to, like, farmers or having a tariff to raise wages for autoworkers. So probably to really zing 'em, you'd say, should we have higher bank transaction fees in order to give more money to the capitalists, so they can go out and spend more? And they might say, well, no, we don't want to give more money to the capitalists.

WOODS: Yeah, that's right; exactly. All right, I want to get back into, toward the end of your article here and toward the end of his presentation, he says that, "Studies show" — and this is something that you've talked about on this show before and in some of your writing — he say, "Studies show that these higher minimum wages bring more people into the employment pool, and this gives employers more choices, and therefore, they have to have less turnover."

But what that really means is that if now, let's say, some extremely menial job is now offering \$15/hour, yeah, that does increase the employment pool. What that really means is some people who would never have dreamed of doing that job, because they feel like they're too qualified to lower themselves to it, well, their dignity doesn't matter that much if they can get \$15/hour for it. So now, the low-skilled people who would normally be competing for that job — they'd be competing with each other — are now competing with much more educated, highly skilled people for the same job, because, as Robert Reich says, more people have been drawn into the employment pool. And so the people who are the most vulnerable and have the fewest skills now have to compete with people who normally, if the wage had been lower, wouldn't dream of competing with them. How does this help the people at the bottom of the ladder, he asks rhetorically.

MURPHY: Right, and you're right there, Tom, that even on the face of it, it makes no sense, what he's claiming. And beyond that, the studies he's talking about – I mean, he doesn't link to the studies, so I don't know – but the ones I'm familiar with, and I've seen this argument before. It is true, for example, like Wal-Mart recently voluntarily raised the wages it was paying – or it might not have been voluntary; it might have been partly to get people to stop picketing and so forth – but it makes sense for any individual company perhaps to offer wages slightly above the industry standard for whatever line of work they're in. And one of the reasons would be to get a better quality applicant so there's less turnover, and so forth. And that makes sense, as long as it's any individual company doing it relative to its competitors.

It does not follow if every employer in the country is forced to pay more, that therefore every employer in the country now will have such a huge pool of workers applying and will be able to be choosier. So what's ironic is a person who made that point very eloquently back, I think it was in the late 1990s in reference to the so-called living wage movement, was Paul Krugman. That was back when he was actually a pretty decent economist and was not – and was a numbers guy and was actually pretty straightforward. And he said that these studies showing individual companies benefit from reduced turnover by paying slightly above industry standard wages, obviously that does not extrapolate to say if you forced them all to pay over – It's not like every company can get the cream of the crop. That's impossible.

WOODS: It's interesting by the way, that Reich – I'm going to hold off on Krugman for a moment – but in the video, he makes much of the composition of people who earn minimum wage. But he says nothing about the percentage of Americans, the percentage of wage earners, who earn minimum wage, because it's just a few percent. And then you would see, well, maybe this is not quite the issue that he's making out of it.

I'm interested about what you said about Krugman, because, as you say, you can look back in the archives and find some sensible comments by Krugman in the old days. But today, to your knowledge – and nobody knows Krugman better than you do including Krugman himself – do you know if Krugman is supporting the \$15/hour thing? And secondly, do you think Reich is actually worse or more dangerous than Krugman if you can measure this?

MURPHY: (laughing) Okay, so on the issue of is Krugman supporting this stuff: yes, he is, in the sense that he's given interviews and, like, when Wal-Mart raised its pay, Krugman said, see, this proves the naysayers are wrong. If Wal-Mart's doing this, it can be done; we can do this – that kind of silly rhetoric, like this is a football game or something, and we're at a pep rally. So Krugman has done – yes, he has offered support. And I want to say, in my mind, Krugman is certainly worse. It's hard to gauge in the grand scheme, because Reich's videos get so many views. But the thing I don't like about Krugman is, as a Nobel laureate – and I know it's not really the Nobel Prize; please don't email me, everybody –

WOODS: Yeah, right.

MURPHY: He has this certain authority, and so when he casually mentions how what the studies have shown and so forth, it makes it seem as if raising it to \$15/hour is going to be fine, that's very misleading. So we probably should just take a moment to talk about that. It is true that there – and maybe, Tom, you can link to that; I have an Econlib article going through these studies – there are some empirical studies that run econometric regression analysis, blah, blah, blah, and it says, hey, look, there are certain ways you can parse the data, and it seems as if modest increases in the minimum wage in certain states did not significantly reduce the employment growth, like in the fast food industry and so on.

So even taking all that stuff at face value – and I think there are problems with those analyses – but even if they were all gospel truth, it doesn't follow that jacking up the minimum wage from \$7.25 to \$15/hour won't have a huge impact; that all these things, that are couched in terms of modest increases, perhaps are not going to have a huge effect. And then everyone's taking – or guys like Krugman are taking those results and then boiling down into quick sound bytes and making people believe that, oh, these are just complete lies from Fox News, if they're getting you to think that raising the minimum wage to \$15/hour might make it hard for some workers to get a job at Burger King; they don't believe that the actual peer reviewed studies show otherwise. No, that's not true. To my knowledge, not a single peer reviewed study gives us any knowledge of what would happen with such a huge increase in the minimum wage.

WOODS: All right, I think that pretty much covers it. We may have to do this – I'm not pledging that we're going to do this for every Robert Reich video. I mean, come on now. You've got to keep your sanity. We can't do this maybe for every one. But this one, I think, has been decisively refuted. And of course, you could spend some time – and maybe I'll link on the show notes page to an episode where I talk about – I must have an episode somewhere, where I talk about if you want to raise wage rates, here's how it actually happens. Here's how it happens on a free market. And if you want to wage raise rates for some people, at the expense of a whole bunch of others, well, we already know how to do that. If you want to see a general increase in wage rates – so I'll put that on today's show notes page, TomWoods.com/430.

MURPHY: So if I could jump in –

WOODS: Yeah, please do.

MURPHY: I'm glad you brought that up, because again, there's a lot of times, it sounds like we're heartless, and, oh, so you're saying everything's fine? No, conditions are terrible for a lot of people in certain demographics in certain regions of the country –

WOODS: And this will just make it worse. We're saying this because it obviously is going to hurt those people.

MURPHY: And we do have solutions. It's not that we're saying, well, they've got to be poor, and five kids are on the verge of starvation, but hey, buy my new book, and

that'll cheer you up. No, that's not what we're saying. They should buy our new books, but —

WOODS: Well, sure, yeah. And it couldn't hurt, but, yeah, I see what you mean.

MURPHY: There are plenty of things that we could say, and obviously, people knowing our views, it's many state policies that contribute to this issue, in restrained growth and actual free market productivity and wage rates that these people will be able to earn if the government would get out of the way.

WOODS: All right, so I'll put that on the page. I'll put your Econlib article. I'll put the article that we talked about today. I'll link to the Robert Reich video, so that you can see we're not caricaturing him; we're not taking him out of context. We're being eminently fair to him. And on the other hand, the one silver lining of the Robert Reich videos is that it does give us an opportunity to restate the correct views. And as I've sometimes said, if you're not going to be right all the time, the second best thing is to be wrong all the time, because that's also reliable. We know when we listen to somebody like Robert Reich, we know that we more or less should conclude the opposite, as indeed, we have done today. Bob, thanks for your time today.

MURPHY: Thanks for having me, Tom.