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Curing the Unemployment Blues

By Richard A Epstein

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One of the enduring faiths of modern progressive thought is that omniscient policy makers can cancel out the errors of one form of economic intervention by implementing a second. That lesson was brought home to me when I was a third year student at Yale Law School, whenever discussion turned to the perennial debate over the minimum wage. The charge against the minimum wage was that it had to introduce some measure of unemployment into labor markets by raising wages above the market-clearing price. "Not to worry," came the confident reply. The way to handle that imperfection is to raise the level of welfare benefits in order to remove the dislocations created by the minimum wage. If one government program had its rough edges, a second government program could ride to the rescue. Implicit in this argument was the tantalizing, but fatal, assumption of economic abundance: The government has the power to tax, and with that power, has access to a cornucopia of public funds that never runs empty—at least until it does.

This abundance-based argument is not confined solely to the minimum wage, but has been extended to countless programs of state intervention in labor, or indeed, any market. Thus in 1935, American labor law created a system of collective bargaining whereby employees bargain with a single voice. That system allows unions to seek, and often obtain, monopoly profits for their members. That system in turn reduces the number of workers hired by the unionized firms. So what is to be done with the excess workers? They should be shepherded into job-training programs, funded by the public, which would allow them to reenter the labor force with other jobs.

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