

banks inflate the currency whenever there is high employment. The hope was that central banks could drive up prices by pumping newly printed bills into the economy. This would then “trick” employers into believing that effective demand for their products is higher than it really is. The duped employers would then want to hire more workers. Workers would accept normal wages, because wages tend to rise more slowly in response to inflation than many other prices. High unemployment would thus end. At least, that was the hope.

This kind of intervention works only if the central bank can trick employers and workers. Rational expectations theory says the bank cannot trick them. Rational expectations theory says we cannot predict ahead of time what employers or workers will think the real rate of inflation will be. Instead, rational expectations theory says that when the Federal Reserve inflates the supply of money, market agents tend to realize it's doing so. Market agents adjust their demand for currency accordingly. Employers do not want to hire more workers—as a whole, they know the Fed created the high prices. Employees want higher wages—as a whole, they know the Fed made prices go up. This means that the Fed cannot cure unemployment by printing dollar bills.

Finally, libertarians say, government interventions lead to more interventions. When governments intervene, regardless of the good they do, they also tend to produce unforeseen bad consequences. They then tend to intervene again to correct those unforeseen bad consequences. For instance, when cities set rent controls, this tends to cause a shortage of housing for the poor. This in turn pushes the city to have to build public housing. Or, libertarians say, US housing policy induced banks to take bad risks. (See question 92.) This led to a financial crisis, and that in turn pressured the government to have to pass an expensive economic recovery bill.

Some anti-libertarians say that libertarians are right that government interventions often fail. However, they claim, such interventions also often succeed and do a great deal of good.

7

SOCIAL JUSTICE AND THE POOR

75. *What is social justice?*

Social justice, or distributive justice, is a moral standard by which some people judge political and economic institutions. Advocates of social justice believe the moral justification of our institutions depends on how well these institutions serve the interests of the poor and least advantaged. The basic institutions of society must sufficiently benefit all, including the least advantaged and most vulnerable members of society.

76. *Do most libertarians reject social justice?*

“Hard libertarians” (see question 5) reject social justice. In their view, justice only requires that people respect one another’s rights.

Hard libertarians tend to assume that a commitment to social justice entails a commitment to a welfare state that redistributes wealth. The hard libertarian philosopher Robert Nozick argues that we cannot ask *how* we should distribute wealth unless we have the *right* to distribute it. Suppose you find a lost wallet. Justice requires that you return the wallet to its owner. You shouldn’t worry about what’s the best way to distribute the money—the money is not yours to distribute.

Nozick says this applies to governments as well. Nozick says that we live in a world with a history. People have prior claims over their wealth. This limits the degree to which anyone—whether a philosopher or a government—can talk about redistributing wealth in order to realize social justice. If people acquire their wealth through force or fraud, they don't have any claim on it. But, he argues, if people acquire their wealth through just means, then no one else has the right to take it from them to give to others. If I rightfully own my property, then the government may not confiscate that property from me, even to help the poor.

The Left often uses the term "distributive justice" as a synonym for "social justice." Nozick says the term "distributive justice" connotes that wealth is like manna fallen from heaven, and that the government's job is to figure out how to distribute the manna. Talk of there being a "distribution of wealth" is misleading. It suggests that *someone* distributed the wealth.

Nozick says that in a free market, there is no more of a distribution of wealth in society than there is a distribution of sexual partners, spouses, or friends. As a matter of fact, some people have more and better friends than others. Some people have more and better sex with more desirable partners than others. We might feel bad for the people who do badly. Still, it makes no sense to talk about fair or unfair distributions of sexual partners, spouses, or friends. No one distributed the partners or friends, so no one distributed them fairly or unfairly. The "distribution" of friends and partners is just whatever pattern happens to result from free people making free choices about whom they will associate with and on what terms.

When people make these choices, some benefit more than others. Some do not benefit at all. But there is no question about redistributing friends, spouses, or sexual partners. No one advocates making supermodels sleep with 40-year-old virgins in order to correct unfair distributions of hot sex. People are entitled to do as they please with their bodies and are entitled to choose whom to associate with, regardless of whether this

makes some worse off than others. Even if you think it would be better if everyone had equal access to good sex, you have no right to redistribute sexual access.

Nozick extends this reasoning to questions about the "distribution" of wealth. People are entitled to hold, use, and trade certain kinds of wealth and property. When they make voluntary choices with their wealth, some gain more than others, just like when people make voluntary choices about sex or friendship, some gain more than others.

Nozick argues that justice is not about the *ratio* of wealth. So, for example, suppose in some society, the top 1% have 100 times the income of the bottom 10%. This fact alone tells us *nothing* about whether that society is just or unjust. To know whether the distribution of wealth is just or unjust, we need more information.

What information do we need? Nozick argues that justice is about *how* people acquire their wealth. We need to know how and why people have the income they have. To determine whether the distribution of wealth is just, we need to look at history. If people acquire their wealth in just ways, they are entitled to it. Otherwise, they are not.

When inequality results from free people making free choices over how to use their own property, then the inequality is justified. For example, suppose we each choose to pay LeBron James 25 cents per basketball game to watch him play. Suppose LeBron James thus becomes 100 times richer than the rest of us. Nozick says that there is no injustice here. We were entitled to give our money to James. James was entitled to accept it.

Nozick argues that we should not try to make the distribution of wealth fit some preconceived pattern. Instead, we should ensure that people only acquire wealth through just procedures. Nozick calls his theory of distributive justice the *entitlement theory*. It has three main principles:

1. *The principle of justice in acquisition*: Some principle or set of principles that explains how a person may justly

come to own property that was not previously owned. (For example, farming an unowned plot of land may give a person a claim on it.)

2. *The principle of justice in transfer*: Some principle or set of principles that explains how people may come to own property that was previously owned by others. (For example, if I buy your computer, then I justly acquire the computer, and you justly acquire some money.)

3. *The principle of justice in rectification*: Some principle or set of principles that explains what to do when people violate principles 1 and 2. (For example, if I purchase a stolen car, then, even if I didn't know the car was stolen, I should return the car to its rightful owner.)

In summary, the entitlement theory says whatever distribution of wealth arises from a just situation through just steps is itself just.

Critics suspect that the entitlement theory is meant to justify the inequality we see in the real world. Not so. The entitlement theory says that if the history of acquisitions and transfers is just, then the current distribution is just. But, of course, the history of acquisitions and transfers has been highly unjust. Much of the land we own was seized by conquest from people who had themselves seized it through conquest. In our current economy, corporations use government to game the economic system for their own advantage. Big businesses receive bailouts, subsidies, and loans from governments and use the power of eminent domain to seize land and property from the poor to their own benefit. Congresspeople funnel federal money toward their personal projects. And so on.

Thus, Nozick's entitlement theory does *not* justify current inequalities, because current inequalities did not arise through just steps. Nozick even says we may have to redistribute some wealth now in order to rectify past injustices.

Some anti-libertarians say Nozick just assumes people have the right to acquire wealth for themselves no matter what the

consequences may be. Contrary to Nozick, they see property rights as sets of conventions. In their view, these conventions can be justified only if everyone subject to them is expected to benefit sufficiently.

77. Do all libertarians reject social justice?

Classical liberals advocated markets in large part to help the poor. Adam Smith said the wealth of nations should be measured not by the size of the king's treasury but by the fullness of the common person's stomach and the opportunities available for his children.

Neoclassical liberals believe just social institutions must tend to benefit all, especially the most vulnerable members of society. Neoclassical liberals believe that liberal market societies are the best means to realize the goals of social justice. Libertarians advocate a high-growth free-market economy—with minimal barriers to entry, few or no immigration and labor restrictions, and little regulation—because they regard this as the way to fight poverty.

Neoclassical liberals agree with hard libertarians that everyone has a right to acquire and use property. However, they add that reasonable people dispute the exact nature and scope of property rights. Property rights are sets of conventions, and there are many different conventions any group of people could live under. (For instance, consider the question of just how long a person can go without using his land before he forfeits his rights to it and it reverts back to being unowned. Or, consider the question of just what an individual needs to do to claim unowned property as his own.) Neoclassical liberals say that it would be unreasonable to demand that everyone accept and abide by these conventions unless they had a sufficient stake in them. Thus, if one set of property rights conventions tended to impoverish the poor or leave innocent people without any wealth or opportunity, that would be reason to reject those property right conventions.

Libertarians add: Even if the point of government is to promote the general welfare, this does not imply we should have a welfare state. A government might try to promote welfare directly, by creating welfare offices, offering subsidies, providing basic income, providing tax-subsidized health care, promoting or providing employment, and attempting macroeconomic adjustments. Or, a government might try to promote welfare indirectly, by providing a basic institutional framework—such as the rule of law, representative democracy, courts, and a well-functioning property rights regime—within which people will spontaneously act in ways that promote the general welfare.

It's an open empirical question about how much promoting the general welfare depends on direct methods. But there is no question that promoting the welfare depends greatly upon these indirect methods. The average person today is 20 to 30 times richer than the average person 200 years ago. The wealth we now enjoy wasn't just moved around by government transfers. It was created by market economies. (The United States today has an economic output greater than the entire world's output in 1950.)

78. *What do libertarians think about economic inequality?*

Libertarians generally believe that when inequality results from free people making free choices over how to use their own property, then the inequality is justified.

This does not mean that libertarians believe all or even any existing inequalities are therefore just. For instance, Archer Daniels Midland (ADM) lobbies the government for corn subsidies. ADM makes money because the government rigs the market in its favor. ADM exploits consumers and taxpayers. Libertarians say that when people acquire wealth through unjust means, they are not entitled to that wealth. However, the problem is not about income or wealth *inequality* per se.

The problem with ADM is not that it has more than others, but that it got its money the wrong way.

Material egalitarianism is the doctrine that everyone ought to possess the same level of income or wealth. Few people really advocate material egalitarianism. If material egalitarianism were true, then it would be better for everyone to be equally poor than for everyone to be rich but unequal. However, it's better for everyone to be rich but unequal than for everyone to be equal and poor. Thus, material egalitarianism is false.

Most reflective people on the left now reject strict material egalitarianism. Nevertheless, they continue to recognize some pull toward material egalitarianism. In particular, they tend to regard material equality as a baseline from which all departures must be justified.

Libertarians of all stripes are unambiguous in rejecting material egalitarianism. On their view, in most situations, material egalitarianism has no moral pull in itself. Imagine two societies, A and B. In both societies, the civil, political, and economic liberties are fully protected, everyone enjoys ample opportunities, everyone has enough, and everyone has high levels of welfare. However, suppose B is more equal than A in its distribution of income or wealth. Most left liberals would favor B over A. Libertarians would be indifferent between them.

Libertarians believe there is no moral remainder to material egalitarianism: It is not (normally) a baseline from which departures must be justified, nor is it morally desirable all things being equal. Libertarians say material egalitarianism misses the point of social justice.

A material egalitarian might say, "Some are rich and some are poor, so we should try to be more equal." In contrast, libertarians say, "The problem isn't that some people have *more*; it's that some people don't have *enough*. The poor of the third world die of starvation and disease, not inequality." Classical and neoclassical liberals are not material egalitarians, but are instead *welfarists*, *sufficientarians*, and/or *prioritarians*.

Welfarism holds that part of what justifies social institutions is that they promote most people's welfare. (Whether a commitment to welfarism in turn suggests a commitment to a welfare state depends in part on what degree a welfare state, as compared to the alternatives, actually succeeds in promoting welfare.) Sufficiencyarianism holds that all people should have *enough* to lead minimally decent lives. Neoclassical liberals advocate libertarian institutions in part because they believe these institutions will tend to make sure people have enough. Prioritarianism holds that when considering changes to current institutions, all things being equal, we should give more weight to the interests of the worst off members of society.

Classical and neoclassical liberals hold that welfarism, sufficientarianism, and prioritarianism capture all of the moral force of egalitarianism. If welfarist, sufficientarian, and prioritarian goals have been met, from the standpoint of social justice, egalitarianism has no remaining attraction. Neoclassical liberals agree that a fair and just society gives everyone a stake in that society. A just society has institutions that ensure, as much as possible, that everyone has the resources needed to be a free person. Still, they say, the goal of society is to make everyone well off, not to make them equal.

Libertarians want everyone to have an extensive sphere of economic liberty. The Left believes that economic freedom causes income inequality. Libertarians respond in part by saying income equality, in itself, doesn't matter. However, many libertarians also argue that there is no measurable relationship between economic freedom and inequality. For instance, the *Wall Street Journal* and Heritage Foundation annually rank countries by their level of economic freedom. If we graph countries' economic freedom scores against their Gini coefficients (a statistical measure of income inequality), we find no significant relationship between the two. Switzerland, Singapore, Australia, Canada, and New Zealand each have both higher

levels of income equality and higher levels of economic freedom than the United States.

79. Why do libertarians oppose welfare states?

The Left tends to think that, without an extensive welfare state, the bottom quartile of people will be left behind. They assume that because libertarians tend to oppose having an extensive welfare state (and many oppose having any welfare programs), libertarians must be callous and indifferent to suffering. They assume libertarians just do not care about the poor. Not so.

Instead, most libertarians dispute that welfare states work as well as the Left believes they do. Or, they claim that there are better alternatives. The Left wants to rescue the poor with welfare programs. Libertarians want to enrich the poor through high-growth economies.

Libertarians believe welfare states often suffer from government failures. (See questions 36 and 37.) They think that welfare states transfer money not to the truly needy and desperate, but instead to strong voting blocs. So, for instance, the elderly are high status in American society. Unwed teenage mothers are low status. The American welfare state does more to help the relatively wealthy elderly than unwed teenage mothers. You might think: This just shows we need to fix the welfare state. Libertarians say, "Good luck with that." Politicians have little incentive to fix this problem.

Libertarians worry that welfare states create perverse incentives and poverty traps. For instance, the field of behavioral economics (the empirical study of economic decision making) shows us that most people underestimate the costs and overestimate the benefits of their bad decisions. It also shows that the poor and uneducated are especially prone to this problem. The economist Bryan Caplan says that if so, when the state offers welfare programs designed to rescue people from their bad choices, it at the same time makes it more likely they will make these bad choices and need to be rescued.

Some libertarians claim welfare states are unfair. Welfare states often transfer money from the conscientious and responsible to the unconscientious and irresponsible. So, for instance, I set aside money for my retirement. I thereby forego current consumption and neglect many of my desires. Many poor retirees who now demand welfare could have done the same but chose not to. They lack means to support themselves because they were irresponsible. They blew their money on new cars, vacations, and other things they did not need. When they retire indigent, they should not demand that *other* working people provide for them. If the ant saves food for winter while the grasshopper plays, when winter comes, the hungry grasshopper has no right to demand the ant feed him.

Note that many libertarians have a nuanced view about irresponsibility. Suppose a 15-year-old girl forgoes (cheap and easily available) birth control, gets pregnant, and cannot support herself or her baby. She may have a stronger than normal claim to be rescued. (Certainly her baby is innocent.) She is not a full adult and not fully responsible. She made poor choices, but unlike retirees who didn't save for retirement, she didn't spend her entire adult life making unconscientious choices.

Most libertarians believe we should be charitable to others. However, our moral duties to provide charity and to rescue others are usually not enforceable. For instance, suppose my parents have money trouble. Even if I should help them, the state may not *force* me to help. Or, suppose my friend needs a ride from the airport. Even if I should help him, the state may not *force* me to help. Some libertarians argue that if the state may not force us to rescue our parents or our friends, then the state certainly may not force us to rescue distant strangers.

80. How can you be a welfareist without advocating a welfare state?

Welfarism is the thesis that part of what justifies social institutions is that they promote most people's welfare. Whether

a commitment to welfarism in turn requires a commitment to a welfare state depends on what degree a welfare state, as compared to the alternatives, actually succeeds in promoting welfare.

Being committed to making sure everyone gets enough does not automatically entail a commitment to a strong welfare state. Do we want government to issue legal guarantees that people will achieve a certain level of welfare? Libertarians say this depends on what actually happens when government issues those guarantees and tries to fulfill them. It depends on how competent government is to fulfill those guarantees. It depends on how people react to the guarantees. There is a difference between guaranteeing in the sense of *rendering something inevitable* (as when an economist says that quadrupling the minimum wage would guarantee widespread unemployment) versus guaranteeing as *expressing a firm commitment* to achieve a goal (as when the Bush administration guaranteed no child would be left behind).

Libertarians say that guaranteeing something in the latter sense is no real guarantee. Many things can and do disrupt, corrupt, or pervert legal guarantees. Legal guarantees are good only when they work. If we give government the power to promote some valuable end, there's no guarantee that those in power will exercise it competently, and thus succeed in promoting that end. There's also no guarantee that the people in government will use that power for the intended end, rather than for some private purposes of their own. There is also no guarantee that people will not *take advantage* of the guarantee. For instance, imagine we tried to guarantee everyone \$100,000 a year in income. If we did, so many people would leave the workforce that we would not have the tax revenues to pay the guarantee.

Finally, there is no guarantee that such legal guarantees will outperform *other* ways of generating the preferred goal. Libertarians believe many welfare programs work worse than their supporters claim. They believe many welfare programs

redistribute wealth toward the well-to-do and well-connected rather than toward the poor.

Libertarians add that regardless of how we evaluate the effectiveness of such programs, welfare programs are not the primary reason the people of the West are as rich as they now are. The West got rich because it had a good mix of stable institutions and relatively high economic freedom. That system unleashed human creativity in ways that made everyone rich. Poor, middle-class, and rich Americans are each much richer than their counterparts 100 or 200 years ago.

Libertarians thus say that in the long term, helping the poor is not about giving them handouts. It is about expanding their available range of opportunities available so that they do not need handouts. In the long term, helping the poor requires serious economic growth.

Sophisticated critics respond that while economic growth is of course the solution to poverty in the long term, in the short term, there is no good alternative to state welfare programs. They say libertarians are right to point out how many of these programs fail or are inefficient. However, they argue, it is better to have these imperfect programs than no programs at all.

81. Are all libertarians opposed to the welfare state?

Hard libertarians (see question 5) tend to believe that the welfare state is illegitimate. In their view, to fund a welfare state requires that the state violate people's property rights in order to provide for others. They say that welfare state forces some people to work for others. Hard libertarians believe we have moral duties to provide aid for the desperately poor, but we may not be *forced* or *coerced* into providing such aid.

Note that libertarians do not necessarily reject all aspects of the welfare state. Robert Nozick, a hard libertarian, says that the current distribution of wealth in any given society arose in unjust ways, in ways that violate libertarian principles. (See

question 76.) Rectifying this injustice may require a (temporary) welfare state with some redistribution.

Classical liberals and neoclassical liberals take a softer line. They believe the legitimacy of social institutions depends in part on how well those institutions benefit all, including the most vulnerable members of society. They say that a regime of private property and free markets could not be legitimate if it routinely left large numbers of people desperate and destitute through no fault of their own. Thus, for them, the extent to which a society may have a welfare state depends in significant part on how well markets work and how well the welfare state works.

F. A. Hayek, Milton Friedman, and John Tomasi, among others, each advocate some form of guaranteed income for the desperately poor. However, classical and neoclassical liberals do not envision the state taking control of people's finances, nor do they advocate having a state make sure everyone is "all tucked in" from birth to death. Instead, they believe welfare functions of the state should be minimized.

Classical liberals and neoclassical liberals will sometimes advocate certain welfare state functions, but this does not mean they advocate full-blown "social democracy." They distinguish between a welfare state, which provides social insurance, and an administrative state, which tries to regulate and manage the economy. They believe that while welfare states can be abused and run poorly, administrative states are heavily prone to abuse. (See questions 36, 37, and 74.)

Consider countries such as Denmark or Switzerland, which have effectively separated their welfare state from the administrative state. The *Wall Street Journal* and Heritage Foundation annually rank countries by their level of economic freedom. On nearly every measure associated with the administrative state (such as business freedom, trade freedom, investment freedom, and property rights), Denmark rates as having much higher levels of economic freedom than the United States. Yet Denmark also has a remarkably effective welfare state. Hard libertarians

would regard Denmark as unjust because if taxes come to provide for others. Neoclassical and classical liberals in contrast may look favorably upon Denmark or Switzerland.

82. How do libertarians propose to end poverty without an extensive welfare state?

Libertarians believe open and free immigration would help alleviate the world's most severe poverty. (See question 86.) Economists conduct studies to estimate the costs of international barriers on labor mobility (i.e., immigration restrictions). On average, they estimate that eliminating immigration restrictions would *double* world GDP. Poor immigrants would gain the most. Economist Michael Clemens jokes that we have "trillion dollar bills lying on the sidewalk." (If eliminating immigration restrictions really would double world GDP, then these restrictions cost the world \$65 trillion.)

The main way libertarians propose to end remaining poverty is to continue doing the thing that has ended poverty in previous eras. As late as 1800 AD, the average person lived on a dollar a day. However, the West grew rich (and, later, much of the rest of the world followed) because it found a good mix of open markets, the rule of law, respect for private property, cultures of tolerance, and other institutions that enabled prosperity to grow. Even today, people around the world (such as in China) lift themselves out of poverty not through redistribution, but because of economic growth.

One way to understand the value of growth is to imagine what would have happened in its absence. Using data from the Bureau of Economic Analysis (BEA), we can estimate that the average growth rate of US real GDP from 1929 through 2004 was about 3.559%. Imagine we had done something to slow this rate of growth by 1 point on average, so that the average growth rate was instead 2.559%. According to the BEA, actual US GDP, in 2000 dollars, was \$10,841.9 billion in 2004. The GDP of the United States, with its slower average growth rate of 2.559%,

would have been approximately \$5,756.4 billion. (At 2% average annual growth, its GDP would be less than \$4,000 billion.) If the American economy were less than half its current size, that would hardly help the average poor person, no matter how much redistribution there was.

Redistribution can sometimes help the poor. But redistribution is a short-term solution to poverty at best. Suppose we liquidated all of the wealth (income, stock, land holdings, and all other assets) of the 400 richest people in America. Suppose we then distributed that money equally among the bottom 30% of Americans. We could give each of them a one-time grant of about \$45,000. No doubt such a grant would help them in the short run. For some, this would make a huge difference. But that would not be a long-term solution to poverty. The long-term solution is to find a way to grow the economy such that the poorest of the poor are making an extra \$45,000 to \$30,000 per year on their own.

Anti-libertarians on the left generally agree that growth is essential to ending poverty. However, they argue, as an empirical matter, we will need a welfare state of some sort to ensure that everyone benefits from this growth. (Note that some classical and neoclassical liberals agree.)

83. Why do libertarians claim that governments tend to hurt the poor?

Libertarians believe governments actively harm the poor by

- Imposing licensing schemes and heavy regulations on small businesses, which makes it expensive and close to impossible for the urban poor to open their own businesses
- Providing subsidies and monopoly privileges to the well-connected and rich, thus giving them an even greater advantage on the market against small businesses and the poor

- Creating subsidies in order to help agribusiness, when such subsidies drive up the cost of food and basic goods that the poor consume, goods that eat up a disproportionate share of the poor's income
- Waging the drug war, which is disproportionately fought against poor minorities (though minorities do not use drugs more than whites), and which has had the result of ghettoizing inner cities and creating dysfunctional urban cultures that in turn tend to make the poor more likely to become criminals (see question 50)
- Engaging in "smart growth" urban planning, which tends to drive up the prices of homes, apartments, services, and goods in cities
- Placing heavy restrictions on immigration, thus forcing the world's poorest of the poor to stay put, suffer, and starve, and to be subjected to exploitation and abuse (see question 86)
- Placing price controls, such as minimum wage and rent control laws, which then create shortages of jobs and housing
- Overregulating, when the costs of compliance with regulation fall disproportionately on small businesses, as they must spend much more money per worker to comply with regulations than large corporations do (see question 71)
- Providing the poor with terrible schools, forcing good students to be stuck with terrible teachers and with peers who teach them dysfunctional social norms, caring in to teachers' unions and being unwilling to fire the worst teachers, and being unwilling to provide vouchers for students to attend well-functioning and disciplined private or parochial schools
- Creating welfare programs that create "moral hazard," that is, in which people cannot risk getting a job and supporting themselves for fear of losing their benefits, and so they become dependent on the state

Libertarians say the United States has a large welfare state and spends large sums trying to help the poor. However, they believe the US government acts more like the *enemy* than friend of the poor. The government pays off the poor, but only after it keeps them down.

In response, sophisticated left-liberals, conservatives, socialists, or others might agree that governments often make bad choices that undermine the poor. However, they say, we cannot *blame* poverty on government. Government helps more than it hurts. And, even if it hurts, the solution is to get it to help more, not just to get it to stop hurting.

So, for instance, the progressive Left might agree that inner-city public schools produce poor results. However, they claim there is no better alternative. (See question 90.)

It would take too much space to discuss each of the previous bullet points at length. But here are some examples libertarians might give:

- An African American woman might lift herself out of poverty by offering eyebrow threading or hair weave services. However, she faces zoning restrictions plus rules requiring her to attend expensive (and irrelevant) hairdressing classes and to acquire an expensive (and irrelevant) hairdressing license. And so, the laws prevent her from supporting herself and thus leave her desperate and dependent.
- Another poor inner-city African American might want to provide a service shuttling customers around his part of town, a great opportunity given that the taxis stay away. However, he will not be able to do so without obtaining a taxi license, and taxi licenses are often prohibitively expensive to acquire. The government limits the number of licenses, and in many cities, licenses cost more than \$100,000.
- Or, a group of poor Jewish immigrants might band together to create a *tontine*—a communal annuity and

social insurance scheme in which all members pay in and receive death and old-age benefits. However, private insurance companies have, in the past, lobbied the government to outlaw such practices, in order to force the poor to buy private insurance. (The result: The poor often end up stuck with government social insurance.)

- Or, a group of factory workers might band together to hire a doctor to provide health services at a reduced cost to all members. In fact, this was common practice in the past. However, in the past, the American Medical Association faced competition from these “lodge doctors” and then lobbied the government to create a series of regulations that destroyed such practices.

84. *Why do libertarians oppose minimum wage laws?*

Textbook microeconomics claims that minimum wage laws cause unemployment among the poor and unskilled. If this is correct, then libertarians think that’s sufficient reason to reject minimum wage laws.

The market price of a good tends to be equivalent to the marginal value of that good. In a competitive market, when a good is worth \$6 to customers, it will tend to sell for \$6. This applies to labor, too. Textbook economics says that in a free market, employees tend to be paid their *marginal product*. That is, employees get paid close to what they are worth to employers. If a worker produces \$6/hour worth of value for others through her labor, then she will tend to make just under \$6/hour.

In general, when a government sets prices *below* the market price, this tends to create a shortage. Customers demand more than suppliers are willing to supply. (For example, when the US government set caps on gasoline prices in the 1970s, this caused a massive shortage.) When government sets prices *above* the market price, this tends to create a glut or surplus. Suppliers offer more than customers are willing to buy.

Wages are just the price of units of labor. If the government makes a law saying that the price of labor must be higher than the market price, this tends to cause a glut or surplus of labor. We call that *glut unemployment*.

Imagine the government passed a law saying that no one could hire a janitor at less than \$1 million/year. This law would not turn *any* janitors into millionaires. It would put janitors out of work. It would create a black market in janitorial services. It would induce employers to have secretaries and office assistants do janitorial work on the side.

Suppose a janitor is worth only \$5/hour to my company. A competitive free market pressures me to pay the janitor just under \$5. Suppose the government requires me to pay the janitor \$15/hour. This means every hour I employ the janitor, I lose \$10. You can guess how long I’d like to keep him.

The economists William Evan and David Macpherson argue that minimum wage laws hurt poor African Americans more than they hurt poor whites. Consider the least skilled group of workers: 16- to 24-year-olds who lack a high school diploma. Evan and Macpherson argue that increasing the minimum wage by 10% tends to cause about a 2.5% drop in employment for white males in this demographic. However, it tends to cause a 6.5% drop in employment for black males.

Wal-Mart hires many unskilled workers. Unskilled workers are relatively unproductive, and their labor is worth little. Wal-Mart pays them little. Suppose Wal-Mart decided to pay all of its employees at least \$20/hour, nationwide. In the short term, that might help the people who currently work at Wal-Mart. But in the long term, this policy is unlikely to make the least skilled workers rich. If Wal-Mart started to pay high wages, Wal-Mart jobs would become attractive to skilled workers. People who currently work as medical assistants or car mechanics would want Wal-Mart jobs. Since they are more productive and have more skills—since their labor is worth more—they will outcompete the kind of people who currently work at Wal-Mart. So, raising wages above market levels is-

unlikely to help the least skilled workers. Instead, it causes *job gentrification*. (Imagine if Wal-Mart offered to pay its workers \$100/hr. Then many of my colleagues would consider becoming Wal-Mart cashiers.)

Some on the left claim that low wages are exploitative. They want to make this exploitation illegal. They say, if minimum wage laws put the least productive workers out of work, so be it. We could just give them welfare checks as compensation.

However, libertarians think this response is far less humane than it looks. Even with welfare benefits, unemployment undercuts people's sense of self-worth. Most people want to feel like productive members of society who pay their own way. Most do not want to feel dependent on society. Joblessness is bad for people's mental health. The unemployed (especially unemployed men) are much more likely to suffer from depression.

Many economists argue that minimum wage laws at least do not cause huge losses in efficiency. For instance, France has high minimum wage laws, while the United States has low minimum wage laws. French worker productivity is still about 85% of American worker productivity. However, this is not surprising. When minimum wage laws are high, this *excludes* the least productive members of society from the market. Minimum wage laws make employers lose money when they hire the least productive workers. Thus, minimum wage laws induce employers to hire high-productivity workers, or to restructure their businesses and use more capital instead of labor.

Many people—even many economists—agree that the minimum wage hurts the poor but advocate the minimum wage anyway. They say such laws express our commitment to the poor. Libertarians find this perverse. They say that if you want to express your commitment to the poor, you don't pass a law that you expect to hurt them. If you do, then you are not actually committed to helping the poor. As the philosopher David Schmitz says, if your main goal is to show that your heart is in the right place, then your heart is not in the right place.

85. Do libertarians support international aid?

Libertarians respond that this is the wrong question. If we really want to help the rest of the world, we shouldn't open our wallets to provide foreign aid. We should instead open our borders to allow free immigration.

Immigration restrictions prevent labor from moving where it is needed most. They distort the world economy—in fact, immigration restrictions may be the single most inefficient policy governments implement. When economists estimate the welfare losses from immigration restrictions, they tend to conclude that eliminating immigration restrictions would *double* world GDP. The poorest immigrants would benefit the most. The families and friends they leave behind would see large gains. (Immigrant workers remit money back home.)

Even if foreign aid worked, it has no potential to double world GDP. But foreign aid often doesn't work (or at least hasn't worked). (This appears to be the consensus among most economists, not just libertarians.) First world governments send money to third world governments. Third world leaders tend to take the money to support their own and their supporters' interests, rather than their people's interests. When a dictator knows Washington will pay his bills, he can get away with an incompetent or negligent government. He doesn't need his people's support. Foreign aid subsidizes government corruption.

Foreign aid to the third world has no history of success. Since World War II, the first world has given Africa about \$1 trillion, and yet incomes in Sub-Saharan Africa are lower today than 40 years ago.