HOW THE MARKET CREATES JOBS, AND THE GOVERNMENT DESTROYS THEM

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Summary

The market creates jobs due to scarcity. We live in a world of scarcity, which means we want more goods and services than are at present available. This being the case, people naturally attempt to produce things of value. And then they trade. That is what we mean by the "market": voluntary commercial interaction of free peoples. For example, someone, call him A, clears a field and plants corn. Another person, call him B, captures a wild cow and domesticates it. A then trades his vegetable for B's milk. Where do jobs come in? A hires some workers, a1, a2, a3, etc., to help him sow and reap, while B employs b1, b2, b3 for similar ends. With no government interference the free enterprise system tends to employ all those for whom the wage paid is higher than their alternative costs of leisure foregone.

Now the government enters this idyllic scenario. Through a myriad of laws, regulations, taxes, subsidies, it reduces employment and destroys jobs.

Consider the following.

The minimum wage law.

States *Milton Friedman:* "A minimum-wage law is, in reality, a law that makes it illegal for an employer to hire a person with limited skills." No words are any truer than these. If the minimum wage law is pegged at, say, $10 per hour, what incentive does a firm have to employ a worker whose productivity is, for example, $6 per hour. None at all, for if the employer does so, he will lose $4 per hour. If the company does so out of the goodness of its heart, in an attempt to help the downtrodden, it will tend to go bankrupt. Whereas, in the absence of this pernicious legislation, such a worker would have had a job, paying, in equilibrium, that wage, e.g., $6 per hour. Where is the employee better off? With no job at all at a "wage" of $10 per hour which he cannot in any case have, or with an actual employment slot paying the more modest $6 per hour. To ask this question is really to answer it, but, given the popularity of this legislation, here is the answer: better to have a job paying $6 per hour, than be unemployed, and "earn" nothing at all. Demand curves slope in a downward direction: the higher the cost of anything, cars, toothpaste and, yes, labor too, the less of it will be demanded. If the minimum wage were such a good idea, why not

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raise it to $100 per hour. Surely, that would cure poverty? Surely not. At such a wage, present stratospheric unemployment rates would appear moderate.

Central banking.

Central banks create money out of thin air. Not only does this create inflation, which most people acknowledge, at least nowadays, it also artificially, and far more insidiously, lowers interest rates. According to Austrian Business Cycle Theory (ABCT) this induces entrepreneurs to make investments in round about methods of production to a greater extent than would be warranted by the time preferences of the populace. But the saving and investment decisions of the society do not automatically change so as to accommodate central bank inflationism. Thus, these mal-investments are unsustainable in the long run. There is a cluster of error, which is known in other terms as a recession or a depression. Capital must be moved from the places to which it was mis-allocated to sectors of the economy more in line with the saving investment decisions of the populace. If labor and capital could be moved costlessly and instantaneously, there need not be any subsequent unemployment. Only a loss of wealth would ensue. But real world economies cannot be run costlessly and instantaneously. The necessity for massive reallocations of labor and capital is what creates unemployment.

Unemployment “insurance”

On the face of it, it would appear to be callous to oppose unemployment “insurance.” After all, how is the unemployed person to be able to survive without such a program. The answer is to repeal all laws which create unemployment in the first place, not to add additional ones which create even more unemployment. Just as demand curves slope in a downward direction, supply curves do the very opposite: the more you pay for something, the more of it will be supplied by the market place. If we pay more for ice-cream, ceteris paribus more of this dessert will be forthcoming. But this applies, paradoxically to some, to unemployment as well. The higher the compensation for being unemployed, the more unemployment there will be. If we pay the unemployed 2% of their previous salary, they will have some relatively small incentive to remain in that status, and enjoy the leisure this payment makes possible. But as we raise this to 10%, 20%, 50% and even more in some cases, this incentive grows. No, the only way to reduce unemployment using this dimension is to penalize people for being unemployed. Make the penalty high enough, and unemployment will disappear. The libertarian, of course, cannot embrace any such policy, but the economist can see how this would work.

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