Letters

We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Letters are subject to abridgment.

The Minimum Wage

TO THE EDITOR:

Allow me to add one more facet to Finis Welch's perceptive discussion of "The Rising Impact of Minimum Wages" (*Regulation*, November/December 1978). A U.S. minimum wage in excess of 40 percent of the average manufacturing wage is almost certainly a major contributor to the heavy flow of illegal alien workers into the United States, since, as World Bank data strongly suggest, the average wage in Mexico is no more than 35 percent of the average U.S. manufacturing wage. Thus, the U.S. minimum wage makes it illegal to hire *any* workers in the United States unless they are paid wages above those the *majority* of Mexican workers can earn in their own nation. One must expect the more able and adventurous of them to seek their fortunes where no local competition is permitted—offering to work for, say, 30 percent more than they can make at home. Entering illegally, they generally will not wish to risk discovery by accepting valuable but costly fringe benefits, and they will be willing and hard workers.

The 35 percent figure is calculated from data presented in *World Development Report, 1978* (World Bank, August 1978). GNP per capita is adjusted by the percentage of population of working age (51 percent in Mexico, 64 percent in the United States) to approximate the annual income per worker. This yields per worker income of $2,137 for Mexico and $12,328 for the United States (only an approximation because the GNP data are for 1976 and the labor force data for 1975). On this basis, average Mexican wages are only 17.3 percent of average U.S. wages. But this is surely an underestimate. If we adjust by using "international" dollars to improve the comparison (according to World Bank figures), we come up with an adjustment factor something less than two. (No Mexican data are given by the World Bank, but the "less than two" figure is suggested by the data for other nations.) Doubling the 17.3 percentage gives us the 35 percent estimate taken here to approximate the upper bound.

The artificially maintained high wage, like any artificially engineered price, invites entry and expansion. If it is a legal barrier, it results in illegal activity. In this case it complicates international and diplomatic relations as well.

Dean A. Worcester, Jr.,
University of Washington

TO THE EDITOR:

Just a small clarification of a passing reference to my work in Finis Welch's excellent report on "The Rising Impact of Minimum Wages."

The quote is: "As Jacob Mincer showed in his article in 1976, no firm theoretical predictions can be made for the effects of minimum wages on measured *unemployment*." The small correction that is needed is to italicize the word measured rather than the word unemployment. I suggest this for two reasons—because unemployment is measured with greater error than employment, and because labor turnover and therefore "frictional" unemployment may decrease in consequence of minimum wage hikes. Neither Welch nor I consider this to be very likely, but the possibility cannot be rejected.

We may define "frictional" unemployment as what occurs when the number of unemployed job seekers is equal to the number of vacancies, while "permanent" unemployment is the case when the number of unemployed job seekers exceeds the number of vacancies. My analysis showed unambiguously that the imposition of (or increase in) minimum wages creates (or increases) "permanent" unemployment, whether or not "frictional" unemployment also changes. Of course, no qualifications attach to the unambiguously predicted reduction of low-wage workers.

Jacob Mincer,
Columbia University

FINIS WELCH responds:

As usual, Jacob Mincer is absolutely right.

Dean A. Worcester is more convinced than I am that U.S. minimum wage legislation contributes to the inflow of undocumented alien workers. The effect could in fact go either way.

For firms covered by and complying with the legislation, the effect is almost certainly to reduce work opportunities for the undocumented. As is true for any other group, if in the absence of the legislation a disproportionate number of undocumented workers would earn low wages, then a minimum wage discriminates against their being employed.

For firms not covered by the legislation, a minimum that restricts employment in covered sectors increases the number of low-wage workers seeking jobs in uncovered sectors and operates to the disadvantage of any (low-wage) group seeking jobs in those sectors.

This leaves us with firms in the covered sector that are willing to risk noncompliance. Much of the onus for detecting noncomplying employers falls on employees. The incentive to report one's employer for paying less than the minimum lies in the possibility of recouping the full difference between the minimum and the wage actually paid. But if an undocumented worker increases his own chance of deportation by reporting his employer, the incentive to report is clearly reduced. Thus it is probably true that a noncomplying firm stands a reduced chance of detection by employing the undocumented.

It is uncertain whether the implicit incentive for noncompliance through the employment of undocumented workers would have effects stronger than the direct effects of compliance in the complying firms. But even if Professor Worcester is right—even if minimum wages on balance contribute to the inflow of "illegals"—I am not convinced that this result is an additional disadvantage of the law. It may, in fact, be one of the few advantages.

But that is a subject for another day.

What Price Safety?

TO THE EDITOR:

Joan Claybrook ("Crying Wolf," *Regulation,* November/December 1978) seems to believe that the auto manufacturer will not give the people what they want unless she compels it to do so. This belief shows a profound ignorance of the workings of the market economy. Actually, of course, the market system itself is a disciplining instrument. Auto makers are confronted by consumers with different degrees of aversion to risk, different income constraints, and different rates of discount applied to future benefits. The market compels the auto makers, if they are to be successful, to offer models with differing properties (degrees of safety, and so on): the people then freely choose among the alternatives offered, given their aversion to risk, their income, and their individual discount rate.

When Miss Claybrook requires some higher safety standard than would otherwise be produced, she is doing auto buyers a disservice. She requires them to purchase more safety than they want, at the expense of other commodities they would prefer. A student of economics would say that she has pushed consumers to a lower indifference surface and therefore has made them worse off. Consumer advocate, indeed!

Nor can much be said for her sense of ethics. She would undoubtedly rail against deceptive advertising by others, but she engages in the practice herself. She tells us that the "average cost to consumers of safety features contained in a model year 1978 automobile [is] about $250" and that the General Accounting Office "estimated in 1974 that vehicle safety standards had saved some 28,000 lives over the years from 1966 to 1974." Some comparison!

The *cost* is decomposed to a per car estimate. It is given as $250 per car, not as $250 per car times some 12,000,000 cars produced each year times eight years—for a total of $24 billion. The number of lives saved, in contrast, is given as an eight-year total of 28,000 lives, not as an annual average of 3,500 lives. Moreover, with total cars in use of 120 million (based on an average of about ten years of use per car), this turns out to be one death avoided for 3,430 cars in which the investment in improved safety has been made. If one sees the side-by-side appearance of $250 and 28,000 lives, one might be forgiven for believing that the safety standards imposed by Miss Claybrook and her colleagues are "one of the car buyer's best investments." However, if one compares $24 billion and 28,000 lives (or costs of $250 per car for 3,430 cars for every life saved), it becomes far less clear that this represents the best use for a car buyer's money or for the social resources of the community.

Miss Claybrook says that the regulations promulgated but not yet effective—for upgraded bumpers, passive restraints, and greater fuel economy—will add $300 (1977 figures) to the price of a passenger car by 1984 but will save the consumer $890 (post-1977 depreciated figures) over the life of the car. This exchange, she says, "does not appear to be disadvantageous to the consumer." Whether it is disadvantageous depends, of course, on the rate at which the consumer discounts future benefits. That rate will vary among consumers. Some will think it wise to invest $300 at the time of vehicle purchase in order to receive $890 over the life of the vehicle; others will not.

If Joan Claybrook's discount rate is such that she would make that investment, she should be given the opportunity to do so. But others with other discount rates ought not be required to make the investment. In any case, if she truly believes consumers are helped by the investment, she ought to be prepared to let them make the choice freely. She does not. She *compels* them to invest in safety equipment—which suggests that she knows they will not do it without compulsion, which suggests they may be better off not doing it.

Finally, she violates some primitive principles of statistical inference when she says "the procession of recalled vehicles" indicates "a certain laxity of quality control." This may indicate only that Joan Claybrook and her like have a passion for imposing their standards on others. If she really wants to do consumers a service, she might think about getting off their backs.

Simon Rottenberg,
University of Massachusetts

TO THE EDITOR:

Ms. Claybrook in "Crying Wolf" is correct to fault those in business who seek government subsidies while deriding government regulation. After all, if government becomes part-owner of a business enterprise, it is not surprising that it would wish to be part-controller as well.

She is, however, incorrect in making it appear that the demand for deregulation is merely an expression of the wishes of corporate America—a designation that is, in any case, annoyingly vague. There are serious observers without any vested corporate interest who regard deregulation as a fine thing....

Admittedly, Ms. Claybrook has a point about those who advocate deregulation primarily on grounds that it will lower costs. But not everyone advances this argument—making it appear that cost and benefit are all. There are those who regard the *methods* of government regulation as quite intolerable. Ms. Claybrook claims that government regulation promotes "the general welfare" and is therefore, at least as she practices it, a legitimate government function. But the general welfare is supposed to be pursued within the framework of principles established in the Bill of Rights. However that is not how government proceeds when it regulates business. Such regulation is commonly preemptory. It is tantamount to punishing individuals not for what they have done but for what they *might* do or have the opportunity of doing. The entire government regulatory establishment, in fact, violates the spirit of the Bill of Rights—the spirit that insists upon the presumption of innocence until it is demonstrated that a *crime* has been committed and by the person who is to bear the punishment. . . .

The central indictment of government regulation, from my point of view, lies not in costs and benefits but in the fact that it violates human rights on various fronts. That its costs exceed its benefits merely shows that injustice breeds imprudence.

Tibor Machan,
SUNY College, Fredonia

JOAN CLAYBROOK responds:

I would like to comment on several points in the letters from Tibor Machan and Simon Rottenberg. Machan apparently thinks the Bill of Rights . . . is designed to protect business from so-called "preemptory" regulation. Perhaps he is thinking about the Administrative Procedure Act under which regulatory decisions must be based on the public record, must meet statutory criteria, and must not be arbitrary and capricious. While that act is important, it is not a bill of rights for regulated business. It is designed to protect the interests of all parties concerned with regulatory action, including consumers and the public in general.

Machan also suggests that regulation is tantamount to punishing individuals not for what they have done, but for what they might do. Safety regulation is normally imposed following gross abuses that the marketplace does not correct. Its purpose is to prevent the recurrence of certain harm, not to punish. Machan expresses great concern for human rights. What about the rights of individuals to breathe clean air, to drink clean water, to secure drugs and food that do not have unnecessary side effects or cause illness, to have a job that does not foster cancer, to drive an automobile without unnecessary exposure to death or crippling injury? These are rights of the citizenry which regulation is designed to defend.

Mr. Rottenberg suggests I am mistaken in advocating regulation for safer cars, since the marketplace can do the job. As any economist knows, two necessary conditions for the marketplace to function effectively are the inability of any seller to control markets and substantial knowledge on the part of consumers. Neither of these conditions is met in the U.S. automobile market. The auto manufacturing industry is oligopolistic and consumer knowledge is far from complete. There are less than fifteen firms of any significance selling cars in the United States today, and the two largest account for more than 70 percent of the production. In addition, how many auto companies advertise the relative safety of their vehicles or inform users of the risk of being in an accident. How many advertised the fuel efficiency of their vehicles six years ago? The marketplace has long been recognized as inadequate to protect legitimate health and safety rights against incursions such as pollution and latent defects.

Mr. Rottenberg takes great pleasure in refuting some of the numbers in my article, but he makes several dispositive errors. He fails to recognize that, even without additional regulations, the existing requirements will reap benefits over the ten-year cycle of the vehicle fleet. Thus, each succeeding year brings more benefits relative to cost. Also, his arithmetic is wrong. He assumes that the cost for the safety standards was $250 per car since 1966. It was zero in 1966 before any standards were issued and the numbers for each year thereafter were rather small. It reached $250 only in 1978. Rottenberg assumed it was $250 for each of the years since 1966.

As for discounting the benefits of future regulations, I have not met anyone yet who would not spend $300-plus to receive a $900 return within ten years, especially since the $300 would be recouped within several years, assuming gasoline at 65¢ a gallon. And with the price of gasoline rising rapidly, the benefits far exceed these numbers. Although I agree that people discount future benefits differently, Rottenberg would need a discount of more than 30 percent to give value to his point.

In short, Mr. Rottenberg misses my key points: that producers who know how to make a product safer have an obligation to do so, and if they do not fulfill that obligation, then government must take it on because individuals cannot achieve the goal on their own. Unfortunately, Rottenberg, in his preoccupation with economics, passes over the fact that the sanctity of life has the highest value in our society.

Of Polls and Pollsters

TO THE EDITOR:

Some of the apparent inconsistencies in public attitude which were remarked on in "Perspectives" in the November/December 1978 issue may arise because of your treatment of the *U.S. News* poll as a public opinion poll in the same sense as a Harris or *New York Times* poll.

The sample surveyed by the *U.S. News* poll is not of the general public. It is deliberately chosen to represent potential subscribers to *U.S. News*. Consequently, it is more male, higher income, more conservative, and more strongly representative of management and executive personnel than is the general public. All this information is available in the publications distributed by *U.S. News* but is usually played down, neglected, or not aggressively and repeatedly mentioned in the narrative analysis with which they accompany the distribution of their results. Indeed, a superficial reading of their summaries and analysis would give one the impression that this was a true public opinion poll.

This is not to say that the *U.S. News* poll is without value. It is important to understand how even this higher income and more conservative group shares, to a large extent, much of the dissatisfaction with business and business performance that is exhibited by the general public. At the same time, it is also important, in the interest of understanding reality, not to uncritically ascribe the opinions of this special group to the general public.

You described some of the significant findings of the *U.S. News* poll, but did not note that these findings are even more dramatic given the nature of the *U.S. News* poll sample. For example, in this higher income and more conservative group

—72 percent believe that "monopoly is growing in the United States," and

—81 percent agree that "large companies have a major influence on government agencies regulating them."

These are the opinions of a group that is actually participating in business as middle management. They should, and probably do, know.

By treating the *U.S. News* poll as a public opinion poll, your analysis did not do justice to its real implications.

Eric A. Weiss,
Sun Company

THE EDITORS respond:

According to its published description, the 1977 *U.S. News* poll surveyed a sample of 13,012 heads of households drawn from Reuben H. Donnelly Corporation's lists of car-owning households and registered telephone households. Together these two lists comprise almost 65 million of the U.S. household total of 74.1 million. The survey was conducted for *U.S. News & World Report* by Marketing Concepts, Inc., was not identified with *U.S. News* in any way, and produced the good response rate of 51.6 percent. Although there was an initial oversampling of higher income groups so as to provide reliable data on these subcategories, the general results were weighted in order to eliminate this bias. In sum, the *U.S. News* poll is a survey of the heads of 65 million American households of all income levels, not "potential subscribers," and is just as much a poll of the general population as the Harris and the *New York Times* polls. ■