

[Part of this argument is correct and part isn't](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 1 September 2013

So, sure ? this is all just capitalism, and I?m all for it. But market failure is also a hallmark of capitalism, and those purporting to hold forth on the economy have a responsibility to recognize such failures, particularly when they violate norms of equity and opportunity. If significant portions of some industries pay wages on which grown-ups cannot support a family, while other industries post historic profits, and, importantly, the gains to the latter fail to ever reach the former, then corrective policy is needed. Some of that should be done through wage subsidies and work support (for example, the earned-income tax credit, and health and housing support), and some should be through moderate increases in the minimum wage. To me, that?s not radicalism. It?s plain common sense.

That's [Jared Bernstein](#) [3] over in the US. And the part of it that is correct is this:

If significant portions of some industries pay wages on which grown-ups cannot support a family, while other industries post historic profits, and, importantly, the gains to the latter fail to ever reach the former, then corrective policy is needed.

The rest is error: the most obvious one being that this is not capitalism doing this this is markets doing this and the two are very much not the same thing.

What needs to be understood is that prices (and wages and profits are both prices) are a source of information as well as the reward for having done something. High profits indicates, in the absence of rent seeking etc, that whatever it is that is being done is adding high value. And we like people adding lots of value because that value is, by definition, the wealth that society is creating. That wealth that we all then get to enjoy: more profits means we're all richer.

Similarly low wages for a particular line of work indicates that this particular line of work isn't adding much value. If this line of work were adding great value then wages would be rising in order to encourage more people to enter it and add more of that high value. We would very much prefer that people stopped doing these low value added things and went off to do high value added things instead. Thus, as above, increasing the total amount of value that all in society can then enjoy.

In which case taxing the people adding lots of value to give the money to the people adding very little value is an *insane* economic policy. We are deliberately punishing those making the society richer in order to subsidise those who are not.

None of this changes the fact that we are going to have a welfare policy and some redistribution. Nor that the richer parts of society are, clearly and obviously, going to be the people paying for most of that. But taxing rich people to provide it is just an unfortunate necessity of having any of that welfare or redistribution at all (and we do indeed all believe that there's going to be some of both. No one at all is suggesting that there will never be any State provision of those two at all.). But that's a very different argument from the one that Bernstein is making, that we should deliberately tax and dissuade those who produce more value

in order to subsidise those who produce little. That really would be an insane economic policy.

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