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The Foundation for Economic Education's specialty is making "arguments" via the uncritical assertion of right-wing talking points. If anybody's the go-to guy for that, it's Walter Block — especially when if it's the worn-out "minimum wages cause unemployment" talking point ("Will an Increase in the Minimum Wage Give America a Raise? No," FEE, Oct. 1). In the world of right-libertarian apologetics, this — even more so than for most topics — is a topic that calls for a by-the-numbers commentary piece. And Walter, predictably, checks all the boxes.

"What determines wage levels in the first place? … [T]he answer is *discounted marginal revenue product*, or *productivity…*" **Check.**

"What is my fate in the presence of a minimum wage law that sets the minimum above [my marginal productivity] … ? I will be consigned to a life of unemployment." **Check.**

"If the minimum wage is so great, if it actually boosts salaries, why limit it to $12 per hour? Why not $12,000, or $12 million?" **Check.**

Let's take a closer look at Walter's core assertion — that wages are determined by marginal productivity. As he elaborates on the claim:

> Suppose my productivity is $5 per hour. That means that for every 60 minutes I am on your shop floor, your revenue increases by precisely that amount. You would not pay me more than that amount, because if you did, you would lose money on the deal. If my wage were $6 per hour, you would be out of pocket for $1 each such time period. But my wage, at least in equilibrium, cannot be any less than that amount either. For example, if you pay me only $3, you earn a pure profit of $2, and other competing employers will bid my wage up to that amount, again, in equilibrium. There is no guarantee that I will always and ever earn that exact amount, but powerful profit and loss market forces will continually work to push me in that direction.

That last sentence — that "powerful profit and loss market forces will continually work to push me" toward a wage based on marginal productivity — is key.

Now let's take a look at a quote from Ludwig von Mises, in *Epistemological Problems of Economics*: "If a contradiction appears between a theory and experience, we must always assume that a condition pre-supposed by the theory was not present, or else there is some error in our observation."

We saw Block's statement of theory above. The theory includes a prediction: that higher minimum wages will result in increased unemployment. What does experience tell us? According to a report from the UC Berkeley Institute for Research on Labor and Employment, "California's $20-an-hour minimum wage for larger fast

food chains," which went into effect April 1, "has not led to overall job losses."

Now, according to Mises — whom Walter, as a devout Austrian economist, presumably reveres — there's a direct contradiction between the claim that wages are determined by marginal productivity and the associated prediction that minimum wage increases will cause unemployment, and the empirical observation that a $20 minimum wage increase did not, in fact, increase unemployment. The clear implication, as Mises put it, is that "a condition pre-supposed by the theory was not present."

The most likely culprit, as a condition not actually met, was Block's assumption of "powerful profit and loss market forces" pushing wages to their equilibrium value based on marginal productivity. Given centuries of state intervention to reduce the bargaining power of labor relative to capital — starting with the creation of the large-scale wage labor market itself, by separating labor from ownership of the means of production and subsistence via Enclosure — it's quite plausible that state-mandated minimum wage increases actually come at the expense of economic rents accruing to employers. That is, employers make artificially high profit by paying artificially low wages, thanks to structural barriers that insulate them from those "powerful profit and loss market forces" that would otherwise result in labor receiving its full product.

In fact Clark's concept of "marginal productivity," and the claim that it determines the distribution of factor payments, is itself flawed — circular or tautological, to be precise — as I argue elsewhere (see pp. 28–39). But there's no need to complicate things here. For the discussion at hand, it's sufficient to note that making predictions, based on economic laws, requires the capacity for critically evaluating or understanding the principles one is appealing to. And that definitely rules out Walter Block.