
REMAPPING DEBATE

Asking "Why" and "Why Not"

Equally free to sleep under the bridge

Commentary | By Craig Gurian | Economy, Health care, Labor

“In its majestic equality, the law forbids rich and poor alike to sleep under bridges, beg in the streets and steal loaves of bread.” — Anatole France

March 26, 2014 — According to N. Gregory Mankiw, [writing in The New York Times](#), economists need to honor the principle “first, do no harm” when offering policy prescriptions. That principle, to Mankiw, translates into the following: “when people have voluntarily agreed upon an economic arrangement to their mutual benefit, that arrangement should be respected.”

Still arguing that there is equality at the moment of contract. Incredible.

What constitutes “voluntary” to Mankiw, an economist at Harvard? “An increase in the minimum wage would disrupt some deals that workers and employers have made voluntarily.”

In short, Mankiw is still peddling the long-discredited fiction that there is equality at the moment of contract. Just stop and assess how voluntary these arrangements really are. A man or woman needing a job goes to apply for one at a fast food restaurant. The job pays minimum wage. The prospective worker does have an initial choice: try to get the job as offered, or not take the job and go hungry.

Good news: the prospective worker applies and is selected for the job. Now she says to the manager, “I have some previous experience in the industry; I was hoping, in view of that, that you’d pay me more than minimum wage.” Anyone who thinks that would prompt a negotiation, please wait in line for a ticket back to planet Earth.

Mankiw’s argument is really the same argument that business owners had in the 1920s — before there was any minimum wage at all: the financial arrangements between employers and employees are contracts freely entered into. At least for many decades, people recognized that argument for its essential fraudulence; that sense of outrage needs to be rekindled.

For a second illustration, Mankiw argues against the Affordable Care Act. The ACA, he says, “has disrupted many insurance arrangements that were acceptable to both the insurance company and the insured.” Here again, it is an argument entirely divorced from practical reality. People lived with those pre-ACA insurance arrangements not because they were “acceptable” but rather because they were the only game in town. Far from offering mutual benefit, those plans benefitted the insurers handsomely and ripped off the insured. Even though the Obama administration, as is its custom, has failed to defend and adhere to its initial decision and has instead allowed these starkly inadequate plans to continue to

be offered this year, the fact remains that there is simply no negotiation possible between an individual on one hand and an insurance company on the other (Subscriber: “Dear United Healthcare, do you think you could customize my plan so that your reimbursements bear at least some resemblance to my costs?” Insurer: “Ha”).

Mankiw’s approach has as a necessary ingredient the complete denial of the reality of huge disparities in the relative power exercised by the two parties to an agreement. In the circumstances, to categorize such arrangements as voluntary is as fictional as describing the parties as equal to one another. Economists and policy makers who are interested in real voluntariness would do well to create conditions within which voluntary and mutually beneficial arrangements can honestly be achieved.

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