Wall Street Journal online blog

Regarding your August 26 story, “[Stagnant Wages Are Crimping Economic Growth](http://online.wsj.com/article/SB10001424127887323980604579028822725730720.html?mod=WSJ_hpp_MIDDLENexttoWhatsNewsFifth)” (p. A2), you have the cart before the horse. Wages don’t cause economic growth, they are a result of it. This is a common misunderstanding of the Keynesian paradigm. For a given labor supply, wages rise when demand for labor rises. Demand for labor rises when the economy is growing. The economy grows either because there is a larger resource base – i.e. a larger quantity of land, labor, and capital – or because the resource base is used more efficiently – i.e. increased productivity. Over time, both tend to occur and an economy grows. The problem with your analysis, in my view, is the Keynesian focus on short run aggregate demand. The accounting identity whereby GDP is defined to be comprised largely of consumption, is confused with a causal chain of economic forces -- as if higher wages cause higher consumption which in turn causes higher economic growth. If this claim is true, let’s raise the minimum wage to $100/hour and watch the economy soar. Not likely. Cornell University economist Richard Burkhauser is correct that retiring baby boomers will help to drag down income growth. But it is not because they will consume less, it is because they will produce less. Production creates income, not vice versa.