

MYTHS OF THE MINIMUM WAGE

by David Rippe

Despite much political fanfare by supporters of a hike in the federal minimum wage (MW), on March 15, 2014, the U.S. House of Representatives voted to defeat a bill which would have raised it from \$7.25 to \$10.10. As proponents saw it, the vote was an act of incredible coldness; but to those who understand supply and demand, it was simply a matter of stopping the federal government from intruding further in the job market and creating more unemployment.

Among the arguments advanced by proponents of raising the MW is that workers should be paid a "living wage" because it's impossible to live independently, much less support a family, on a minimum wage. While pointing out that the MW fails to keep up with inflation, they also insist that past MW hikes have not harmed the economy and that putting more money in the hands of the lowest paid workers will act as an economic stimulus. Further, they contend that decreased taxes for all will result since better-paid employees will be less dependent on public assistance to supplement their incomes.

SOME REALITIES

The minimum wage began with the Davis-Bacon Act in 1931. Over the decades, as myths about wages have gained acceptance, they have clouded the economic realities of the issue. It is a fact that you can't live or support a family on the current MW. No one with any sense will dispute that. But the truth is, you never could. Many households even have a hard time surviving on incomes considerably higher than the MW. Increasing the MW to \$10.10 would still not be enough for most individuals, much less for families, to live comfortably on but it would cause unintended adverse consequences downstream.

Ironically, the most pernicious effect of MW hikes is that they increase joblessness by harming the folks at the very bottom of the employment ladder. Raising the MW squeezes the lowest skilled applicants completely out of the job picture because demand for their limited skills drops to zero at a higher mandated wage. Often, minority youth sustain the greatest damage. When the MW is raised, business owners scrap entry level jobs in favor of more essential jobs that MW-level applicants don't have the qualifications for. Thus, these workers at the bottom can't even get the experience they need to move up. Similarly, MW hikes foster the spread of automation which eliminates inefficient, expensive, mistake-prone human labor and forces job hunters to become even more highly trained to qualify for the remaining jobs.

It is partly true that MW remains static while inflation continues to rise. The MW is periodically beefed up by a large percentage but only when Congress

acts to raise it. On the other hand, people working for MW are not static. Few workers are stuck there for any length of time. The small number who are mired permanently at MW are the exception and need more help than any MW hike would provide.

As for the asserted tax benefits of paying everyone a "living wage," it must be understood that nothing is free. Among the ripple effects of raising MW is that taxpayers and consumers, including the poor, will end up footing the bill for artificial wage increases as business owners are forced to lay off their lowest paid employees and raise prices of the goods and services they sell. Workers eliminated from the job market will still need public assistance.

No sound basis exists for the claim that a MW hike is an economic stimulus. The extra money given to an employee will certainly be spent and circulated, but its benefit is negated by the act of taking that same money away from the employer which leaves less for him to invest.

If ever an issue received disproportionate and biased media coverage, it is the MW. The percentage of workers who work for MW is actually much smaller than most people realize. Not only are many MW earners teens who live with their families and work 30 hours or less per week, 98 percent of workers 25 and older already earn more than the MW.

Jobs paying MW are not intended to be made into careers. They are, for the most part, transitory entry level jobs - part of the employment learning curve. The MW is a beginning salary for unspecialized work that does not have high value to employers because a large fungible pool of unskilled applicants exists. People who apply for MW jobs should be preparing themselves to quickly move up the seniority scale for better pay. Most of us have worked at a MW job at some point early in our employment careers. It's the way we get started in the working world. The good news is that people are upwardly mobile. Individual employment histories are dynamic. Most workers do not remain long-mired in the MW bracket.

Jobs paying MW continue to exist because somebody wants them -- a demand exists for them, as does competition. If working for MW were a wholly unattractive proposition, no one would apply for these jobs.

When wages are raised artificially and a business owner is forced to cut back or raise his prices, the result may be a reduction in sales which could diminish his incentive for maintaining the business.

Some who already are making good wages have found ways to exploit the MW issue to their advantage. Labor unions favor MW hikes since many union workers have salaries indexed to the MW, although considerably higher. When the MW is raised, these already well compensated workers get paid even more. In the past, MW hikes have also been used to justify employment discrimination against racial minorities. Today, black youth unemployment already stands at over 40%, making it critical that no law be enacted which would raise this shameful number any higher.

THE VALUE OF WORK

Given that issues between people should be resolved at the appropriate level of authority (according to the Catholic doctrinal principle of subsidiarity), top-down wage mandates from a distant government with no appreciation for individual situations would seem to be not only unwise but wrong. It's assumed that raising the MW will bring about some undescribed notion of justice, but perhaps the inherent justice in the wage scale system has been corrupted since the 1930s when the government intervened in the market and Davis-Bacon was enacted. We will never know what would have happened had the system been left alone so that workers and employers could negotiate wages. But we are now trying to impose additional justice in a futile attempt to correct the damage already caused under past acts of imposed justice.

Work has a value which can be determined by market transactions. The question is: Should a worker be paid on the basis of the value of his work to his employer? Or should he be paid a "living wage" simply because he is an employee? The hard and uncomfortable truth is that work is worth only what it's worth. Not all jobs are commensurate in value with a "living wage." Being forced to pay someone more than the value of the work they do is not justice and it will have repercussions throughout the economy by way of inflation - which, of course, hits the poor hardest.

What MW proponents reject or fail to understand is that wages in a free market cannot be set arbitrarily. They must reflect the value of the work being done. It is not an employer's responsibility to ensure that his employees are making enough to cover all their "needs." His responsibility is only to pay them what they agreed to accept when they took the job.

Flooding the job market with low-skilled immigrants, as is the current situation in America, forces wages downward because it increases the supply of labor. By permitting companies to offer lower pay, it is effectively a transfer of money from the poor to the well-off.

A LIVING WAGE – AN ARBITRARY CONCEPT

What exactly is a living wage? And who determines what it should be? A survey taken across the spectrum of opinions would nullify the idea of a living wage because everybody has a different idea. The MW law is based only on how much money someone arbitrarily decides an employee needs to live on. Any arbitrary figure is untenable given that every household has different needs: some have costly health problems, some have children, etc. No matter how high the MW is raised, it still will not satisfy all.

If we argue that raising the MW to \$10/hr will benefit the economy, then why shouldn't we raise it even higher? Since no corresponding official point of diminishing returns has been established, why not raise MW arbitrarily to \$100 per hour? Who is the all-knowing expert who will decide how large a

wage increase is beneficial and where to draw the line – or even if a line should be drawn?

FALSE PRESUMPTIONS

Nothing is free. If we set a higher floor for the minimum wage, where will the money come from? When an employee's wages are raised, the money must be taken from elsewhere. Employers have the unattractive options of diverting money previously committed to some other need, raising prices or firing somebody. The wage issue argument always begins with the tiresome Marxist pretext that business owners are rich and greedy and that their employees are underpaid victims. MW law proponents mistakenly believe that the employer can always afford to raise wages; thus, their demands for higher wages assume, incorrectly, that the business is awash in uncommitted cash.

WHOSE RESPONSIBILITY?

It isn't the responsibility of an employer to offer an arbitrary "living wage." The employer offers what he can afford. If he can't attract employees at the offered salary, he must either cut expenses to raise the wages or else close down. Without the employer there would be no business, no employees and no wages at all. Why, we should be asking, is it never the responsibility of the employee to make himself worthy of a higher wage? When we back minimum wage laws, we're creating an artificial right to a wage at someone else's expense.

Work has value, but its value may not be equal to what an employee needs to live on. Employees with weak skills and/or a poor work ethic (they are legion in today's entitlement-minded, reality-phobic workforce) will actually reduce the value of their employer's business. Employees who alienate customers will damage the company's brand and reputation. A worker will not make himself eligible for promotions and more money unless he can add value to his employer's business.

Prospective job applicants need to acquire necessary knowledge and skills for employment, and to develop the willingness to cooperate with others. These qualifications aren't achieved by dropping out of school, joining gangs and acting irresponsibly. Among the personal traits that make individuals valuable to employers are obedience, integrity, loyalty, humility, patience and courtesy. Citizens and lawmakers interested in helping MW workers can best help by supporting marriage, traditional families and educational voucher programs. All will create better skilled and more valuable prospective employees as will rejecting recreational marijuana legalization and other social ills demanded by the popular culture.

If an employee needs more money than his employer is paying, he has options:

- 1 Leave and get a job somewhere else that pays better. With the exception of military personnel, no one is forced to work anywhere or for any given employer, or for any wage offered.
- 2 Find a second supplemental job. This is often characterized as an unfair alternative by those sympathetic to the plight of MW earners, yet for decades, low-skilled but industrious people have been successfully working at more than one job.
- 3 Get training that will increase the employee's value to an employer.

If an employee's income is inadequate, it is his or her responsibility to do something about it.

CONCLUSION

Hiking the MW is a misguided populist practice. It merely punishes the least qualified workers while doing nothing to increase overall productivity which would help create more jobs. Ironically, the MW issue pertains to only a small and mostly labile fraction of the workforce. It's a red herring used to score political points while creating a smokescreen for the federal government's job destroying actions. The real issues with which we must concern ourselves are excessive taxes, laws and regulations that restrict the freedom of the market to create more and better-paying jobs for the low-skilled and highly-skilled alike. Rather than attempting to impose an unjust, unwise and distorted view of justice in the workplace, our elitists and economic theorists would be better advised to trust the inherent wisdom of the free market. That same wisdom - the product of millions of transactions and negotiations - tells us what work is worth, just as it informs us how to price goods and services, resulting in the fairest benefit for the common good.

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