THE MINIMUM WAGE LAW ONCE AGAIN

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Abstract:
The minimum wage law is a snare and a delusion. The present paper attempts to demonstrate that such legislation boosts unemployment rates for unskilled workers. Which element of society notoriously favors this enactment? Organized labor.

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INTRODUCTION

When evaluating any public policy, it is important to look not at the intentions of those advocating the proposal[4], but at the

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[4] Which are often but not always good; see on this Sowell (2005, 2015)

policy's actual effect. Furthermore, it is pertinent to look not only at the short run effects of a law and those directly affected by it, but also at the long run effects of the law and the effects the law has which are indirect (Hazlitt, 1946). The purpose of the present paper is to cast a harsh light on the minimum wage law; we shall demonstrate that amongst his most signal failures is that it enhances unemployment for those least able to bear it: the unskilled.

In section II we discuss wage floors. The purpose of section III is to review the case for concluding that wage floors increase crime rates. In section IV we ask Why hire workers? Section V is given over to a discussion of loopholes in this law. The burden of section VI is to consider the role of unions in promulgating this pernicious legislation. We conclude in section VII.

II. WAGE FLOORS

The widespread favor that minimum wage laws have garnered ever since the New Deal is a perfect example of people not following these guidelines. This legislation is said to help the needy and the poor in our society by legally requiring employers to pay them at or above a given rate. Without such laws many think that employees would be paid at a near subsistence level, that workers would be taken advantage of, or at the very least that they would receive less than at present. All these claims are far from the truth and stem from knee-jerk reactions instead of a clear understanding of economics.

It is a basic premise of economics that wages tend to equal productivity in a competitive market.[5] That means that if a worker has a productivity level of, say, \$10 an hour (meaning he adds \$10 to the firm's revenue for each hour worked) and is being paid \$5,

[5] By this we do not refer to "perfect competition." Rather, to free enterprise, untrammeled by government regulation.

there is an incentive for other employers to offer the worker more than $5 but less than $10 in order to make the difference in profit. Where will this process end? Assuming no transactions costs, at precisely $10, in equilibrium.[6] On the other hand, if an employer makes the mistake of paying a worker $15 an hour when his productivity is actually only $10, then the firm will lose $5 an hour and there will be an incentive to lower employee pay, or if the employer errs in this manner once too often, he will go bankrupt.

When a minimum wage law is set lower than a worker's productivity level, it seemingly has very little effect.[7] The same is true when a minimum wage law is equal to what the employee can produce. However, when it is set that is above this point, the laborer will tend to be unemployed. These laws either have very little effect on wages or they lower them to zero through unemploying workers outright.

The minimum wage laws have a negative effect even when set at or below the marginal revenue product of low skilled labor; they reduce producer confidence. If employers observe wage floor laws on the books they are likely to be concerned with rises in such a floor. When or if such an increase takes place, employers will be hurt. They will have to substitute other forms of labor or capital to replace the low skilled labor they are now legally restricted from hiring on a profitable basis. An increase in the general level of automation and the development of greater levels of human capital takes place naturally as economies grow and technology progresses. But these are not to be confused with the inefficient escalations brought about through price floors for labor

[6] True, we are never at equilibrium, but, always tending in that direction.
[7] Well, at least not according to the textbook supply and demand curve analysis. However, out in the real world, such an enactment “sends a message” to entrepreneurs that all is not well. Ceteris paribus, they are now more likely than before to at least think in terms of “greener” pastures.

services. One example is the grocery boy. Before minimum wage laws were enacted the small children of grocery store owners would often collect and bag the groceries for customers while the patrons played chess or checkers to pass the time. Since the implementation of wage floors in the United States in 1938 (United States Department of Labor Wage and Hour Division) those and similar jobs have disappeared from existence, meaning a net loss for the economy through the reduction in the gains from trade realized through the law of voluntary exchange[8].

Minimum wage laws have a large effect on those whose productivity is less than the legal amount needed to be hired. This means those with low productivity levels such as young people or blacks will be hurt disproportionately by minimum wage laws while those with higher productivity levels such as college graduates or adults will be hurt much less. This is the reason why the youth black unemployment rate is 28% while that for white adults is 4% (Labor Statistics 2016). Before minimum wage laws were enacted in 1938, the unemployment differential between whites and blacks and the young and old was close to zero (Sowell 2015).

There is only one scenario in which minimum wage laws have the opportunity to permanently raise the wages of workers - the oligopsony/monopsony model (from now on referred to as the monopsony model). Here, there is a single buyer of a specific type of labor services, in which case he will offer workers a wage rate below the competitive equilibrium rate because the firm is a price maker instead of a price taker. In a perfectly competitive market for labor services (infinitely many buyers and sellers) a firm which offers wages below the equilibrium level will not be able to bid any workers away from other employers or people

[8] The Law of Voluntary Exchange: All voluntary exchange is mutually beneficial in the ex ante sense of anticipation.

enjoying leisure time, and will therefore have no labor with which to utilize their capital equipment for production processes. Furthermore, it will have a very strong tendency to lose its control over capital equipment through bankruptcy.

In monopsony a firm which offers below equilibrium wage rates will not per se have a shortage of labor, for if no other firms are available for workers to seek employment at, the only alternative for a worker taking a wage below his marginal revenue product is leisure time[9].

However,this case is not relevant to the low skilled labor market. There is no labor market in the modern, or in fact throughout any time in the world's history with as many buyers and sellers of labor as that of the low skilled labor market. Thus, the use of the monopsony model to object to the denigration of minimum wage laws is inappropriate.

There are some small company towns in which one employer does dominate the labor market. But, with modern transportation, all such monopsonistic powers must evaporate. In any case, this ability, if it exists, can only apply to skilled workers, those earning more than at a minimum wage level.[10]

III. WAGE FLOORS AND CRIME

Minimum wage laws are a contributing factor to incarceration in the United States. This is due to the drug war, for those with low productivity levels are in effect prohibited from working in the legal market due to minimum wage laws. This

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[9] Leisure time is generally a superior good.

[10] In addition, there are theoretical difficulties with the very concept of monopsony. For one thing, it logically implies invalid interpersonal comparisons of utility. See on this Block and Barnett, 2009

means that for low skilled individuals in the United States, entering the drug trade is very attractive, since there are no options open for a legal job. A young man with a productivity level below the minimum wage rate can still work outside the law as a drug dealer, and even if he has a high enough productivity to attain a legal job the potential loss of welfare payments, unemployment benefits, and public housing all provide an incentive to stay legally unemployed and look for black market employment.

The recent uproar about the shooting of unarmed black men by white police officers and the rise of the Black Lives Matter movement stems, partially, from minimum wage laws and the crime they create, not blatant racism in police forces. Although the shooting of innocent or unarmed inner city blacks is problematic to say the least, the evidence for racism in this regard is non-existent with the percentage of whites shot by police officers higher than that of blacks when violent crime is taken into account[11]. One reason why young black men are shooting each other over drug turf during our current drug prohibition while young Italian men were shooting each other during alcohol prohibition is because of these abnormal opportunity costs created by government intervention in the economy.

[11] Population, Crime, and Police Shooting Statistics Whites as a Percentage of Total U.S. Population 77.1% (QuickFacts 2015) Blacks as a Percentage of Total U.S. Population 13.3% (QuickFacts 2015 Violent Crime Perpetrated by Whites 59.4% (Crime in the United States 2011) Violent Crime Perpetrated by Blacks 38.3% (Crime in the United States 2011) Police Shootings of Whites 54% (Heather MacDonald 2016) Police Shootings of Blacks 28% (Heather MacDonald 2016) 54%/59.4%=0.90909090909 28%/38.3%=0.73107049608

IV. WHY HIRE WORKERS?

Some may be wondering, why would an employer even hire a worker with low productivity in the first place? Profit is the motivation for hiring labor.[12]Therefore, it will be acceptable to employ anyone whose productivity surpasses the cost of his labor. For example, if productivity is $6 per hour, and the wage is $4 hourly, then the firm can earn $2 per hour on the transaction, and, the job seeker will be successful. On the other hand, with a minimum wage of $7, while productivity remains at $6, the employer will lose $1, not a paying proposition. Thus, the minimum wage imposes a barrier against those who can´t produce at the required rate, rather than improve their living standards. As Reynolds (1995, p. 90) points out:

"The most disadvantaged and least valuable are most likely to lose their jobs or not be hired at all. This effect generally would be viewed as undesirable because the minimum wage is supposed to be an antipoverty device. In fact, studies of the minimum wage law show that adult females and white teenagers have not lost jobs, but black teenagers have. Milton Friedman (1972) calls the minimum wage the most antiblack law on the books."

The old, the unskilled, and the disabled are very capable of producing and generating profits for employers, just as much good as anyone else, and this is based in their core competency, plus the ability to work for a lower wage. As Block (2008, p. 138) points out using an analogy from biology: "There are certain animals that are weak compared to others. For example, the porcupine is defenseless except for its quills, the deer is vulnerable except for its speed."This can be compared to the old, unskilled, and disabled in their ability to work for lower wages. They are capable

[12] As it is for all of commercial activity. This goes for consumers too! If a woman buys a dress for $100 that she valued at $150, she would have paid that amount if she had to do so, then she earns a profit of $50.

of generating profits to employers just as well as any other worker could. While the unskilled may agree to produce $7.00 worth of goods per hour for a wage of $5.00, providing the employer with a $2.00 profit, the minimum wage will in effect force the employer to only hire people who can produce above $7.00. Needless to say, when the government forces wages further beyond the productivity level of the less productive, yet still capable workers, they are basically stripping them away from their core competency, which is similar to the porcupine being shorn of its quills, or the deer getting its legs cut off. It creates isolation and dependency.

In addition to unemployment, there are other ways in which the minimum wage can also ruin standards of living. Those who remain employed are not made better off by the minimum wage. For example, cutting down in expenses for the improvement of working conditions, or stop offering health care, or reducing benefits such as vacation time, are just some of the ways in which employers can defend against the increased cost of labor.[13]

Furthermore, as if the harm done by the minimum wage wasn´t enough, there are other policies that tend to go hand in hand with it, such as "comparable worth". Under such principle, both men and women must be compensated equally for performing occupations of comparable skill and effort. While it does sound fair and progressive for our community in principle, such idea just can´t be enforced by law without negative consequences in the real world. Assume that both a man and a

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[13] It is worth noting that the government imposes regulations to prevent this from happening. Though, forcing businesses to maintain certain standards in terms of fringe benefits, would cause businesses to defend against it by reducing wages. If fringe benefits and minimum wage requirements are forced upon businesses that can´t sustain the resulting costs then laying off workers will take place; and if the government intervenes to prevent that from happening then the business will go bankrupt and unemployment will be the result regardless.

woman work doing the exact same job, each with a productivity of $12 per hour, and suppose, because of sexism or whatever, that the man is paid $10 per hour and the woman is paid $8 per hour. It is as if the woman was making an offer to save the employer an extra $2 per hour just so he can hire her instead of the man. This makes her a desirable employee, even for a sexist boss. But when a law enforces the equal pay for both men and women, then the employer can give in to his discriminatory tendencies and not hire her at all at no cost to himself (Becker, 1957). Thus, such policy in addition to increases in the minimum wage could potentially increase unemployment for women as well as the less productive.

The minimum wage is enforced by the law, but is there 100% compliance? No. "Not everyone complies with the minimum wage law, thereby reducing its impact on labor markets. Fearing deportation or loss of their jobs, for example, illegal or undocumented workers are reluctant to seek minimum wage help from U.S. government officials" (Reynolds p. 94). Illegal immigrants are a source of labor that employers have not hesitated on using before in order to take advantage of cheaper labor. Some examples include Mary´s Gone Crackers, Inc., which had to pay a penalty of $1.5 million to the government; a limited liability farming company, HW Group, of Lexington County South Carolina, which was fined one million dollars and put on probation for four years (FAIR: *Employer Sanctions*); and even Wal-Mart Stores Inc., the world´s largest retailer, was fined $11 million to end a federal probe due to its use of illegal immigrants as janitors (FoxNews 2005). Why do some businesses still take the risk of violating this law? Apparently, the opportunity cost to take on such risk must be worth it, in the form of higher profits.

It is worth noting that the main argument for the existence of a minimum wage is for workers to earn a "fair" and "sufficient" wage for self-sustainability. But this enactment creates unemployment, not higher wages. Yet, surprisingly, there are still well-intentioned people who support its further increase. This only bespeaks widespread economic illiteracy.[14]

V. LOOPHOLES

There is another way to avoid compliance to this ridiculous price floor. "… another dubious way around the law is for employers to convert jobs from an hourly basis to a commission basis" (Reynolds p. 94). This is predominantly more common for sales jobs, as both employee and employer depend on the sale of a given product or service for their own profit. Commission does provide both employees and employers with the opportunity to earn more than they otherwise would by subjecting themselves to the minimum wage, since effort is especially compensated under such system and persuasive skills are particularly developed through the experience of working under such conditions. However, such jobs require a certain talent for those involved, charisma, empathy and optimism are just a few characteristics that certainly help. However, not everyone is proficient in applying these intangible assets, and those workers who are unable to compensate for a lack of such vital capabilities could potentially earn absolutely nothing, and waste hours of their time in attempting to do so.

That said, restaurant owners appear to be getting around this price floor by paying a lower wage if their employees are highly tipped. "An employer of a tipped employee is only required to pay $2.13 an hour in direct wages if that amount plus the tips

[14] Senator Bernie Sanders of Vermont, in his 2016 campaign for the Democratic nomination for the presidency attracted large enthusiastic crowds with his call for a $15 per hour minimum wage.

received equals at least the Federal minimum wage" (US Department of Labor).[15] There is still a minimum wage applied in this scenario, but it is far lower since compensation by tipping, which is typically given for performance beyond that of expectations in every other country, has become a sort of moral obligation in the United States.

VI. THE ROLE OF ORGANIZED LABOR

Now let us consider unions, perhaps the most dangerous supporters of the minimum wage. Labor organizations promote the idea that workers need them in order to earn a fair wage and have a decent quality of life. Of course, under a free market economy without government intervention to limit firms, workers could hardly complain about their wages or benefits when multiple businesses compete for them. But even in a world where the state does intervene and limits businesses through their policies, there are still options available. Take Martin Ritt´s movie *Norma Rae* for example (http://www.imdb.com/title/tt0079638/). This is perhaps one of the most biased movies in favor of unions ever made. The

[15] This system could incentivize the employee to provide a high quality service to earn bigger tips and exceed the minimum wage pay. However, as recognition of a high quality service, it was originally meant to be a bonus added to the real wage. The fact that the US Department of Labor turns a recognition/bonus into part of their normal wage is problematic. It turns a grateful compensation into a moral obligation, making it the responsibility of the client to pay for some of the employee´s salary instead of the employer. This policy could potentially cause additional conflict as it is difficult to keep track of every tip paid in cash by the customer. This will encourage the employee to lie about his tips so that the employer makes up for the difference required to fulfill the equivalent of the minimum wage, accumulated by the total hours worked. Similarly, even if an employee did in fact fail to reach the required minimum wage through his tips, it may be hard to prove. Thus, it would be best for a mutually agreed wage and bonus compensation from clients to apply without government interference.

argument is often made that the cotton mill for which Norma works is the "only" job available, yet her husband Sonny quit the same mill and found a better opportunity at a gas station, although this is only mentioned once and is completely ignored afterwards. It is also interesting how the movie makes no mention of illegal immigrants or scabs. Perhaps the controversy as to which is the "good" side would have been significantly distorted if they did, since they are often met with union violence (Block, 2010). For the purposes of the movie, it was best to avoid them. Additionally, nobody seemed to mind the deal workers had with their employers until Reuben Warshowsky, the union organizer, showed up and argued that they were being underpaid. Though once again, even if it was the case, it would not take long for more firms to enter the local labor market to take advantage of cheaper labor. This could only be done by offering a better deal to local workers to quit their present job and join the new one. Thus, the local business would have to respond with equal or even better deals to not suffer from a shortage of labor. This system of healthy competition without government intervention eventually promotes innovation and improves the quality of life for the community. Unfortunately, policies such as the minimum wage and protection of unions delay the economic development and quality of life for the average worker. Unions push for higher minimum wages against the will of employers,[16] and get their way through violence or the threat thereof, mostly through white collar violence (e.g. labor legislation). Thus, employers are often forced into signing contracts "agreeing" to union demands under duress, and should therefore be illegal.

Businesses compete, not just to sell their goods and services, but to attract the labor that allows them to produce such goods and serve at their optimal level. It is important to

[16] And against the economic interest of lower skilled workers

understand that it is a two-way search for benefit from both the employer's and the employee´s side. Hence, if the firm is able to find the best possible alternative to achieve this synergy, it is only logical that this will occur. A documentary worth considering in how both unions and the minimum wage law prevent this from happening in the United States is ironically Michael Moore´s *Roger and Me* (http://www.imdb.com/title/tt0098213/). Moore takes an interesting approach towards General Motors when they moved their plants from Flint, Michigan, to Mexico. This film-maker depicts the corporation as at fault for Flint´s economic crisis. This leftwing activist maintains that GM had some sort of obligation towards the people of Flint to provide them with jobs at the wage levels they demanded. A corporation is not a charity center, and it was the rational decision to take advantage of labor on the more convenient side of the world. The real guilt in this instance properly fell on unions and minimum wages, which created joblessness and poverty of the rust belt.

The minimum wage, a price floor supposedly created for the benefit of the poor, ironically happens to create more poverty. "While most economists favor measures to help the poor, few economists favor the minimum wage law. Why? Because the minimum wage is not an effective method to help the poor" (Reynolds p. 95). This law imposes a barrier on those whose productivity is unable to surpass that which is required by this price floor. The old, unskilled, and disabled disproportionately fall in this category. Therefore, as the minimum wage increases so does unemployment. The government attempts to offset this horrible consequence by forcing those who remain employed to cooperate through taxes for the maintenance of the unemployed through unemployment insurance. That said, even those who remain employed are not necessarily better off as employers attempt to defend against the increasing cost of labor by reducing fringe benefits. This enactment also promotes racial and other forms of discrimination as employers are more inclined towards giving in to their discriminatory preferences (Becker, 1957) when hiring rather than focusing on profit.

Who are the most vociferous supporters of the imposition of the minimum wage? One way to answer this is to ask, quo bono? Who benefits from this egregious law? Given that it causes unemployment for the unskilled, we then ask, who gains from such an occurrence? There are numerous candidates. Since, as we have seen, this law leads to crime, we might expect jailors to favor it. Perhaps psychiatrists and social workers who might be called upon to treat such unfortunates. All of these are viable candidates, but an empirical examination points strongly in one direction: toward organized labor. Why would unions benefit from unemploying unskilled workers? This is because the skilled workmen are always and ever in competition with the lesser skilled. At the outset this might seem puzzling, since the two different type of laborers typically do very different jobs. Nevertheless, they do compete with one another. For example, there are several ways to manufacture 100 widgets. This could be done with 25 skilled and 25 unskilled employees; call this proportion A. Another workforce might consist of only 5 skilled workers and 100 unskilled ones. Here, in proportion B, 75 of the latter substitute for 20 of the former. In this case, the skilled people might not do any actual work, confining themselves to the role as foremen for the others. Or, there could be version C, with perhaps 30 skilled workers and only 10 unskilled ones, in which case the latter might be limited to carrying and fetching for the former. The point is, there is more than one proportion of workers that can produce the 100 widgets. There are variable proportions that are possible. Thus, even though one type of laborer can produce more than the other, they are still substitutable, one for the other, within limits of course. Now, suppose that the unionized skill workers demand a wage increase. The employer will then, naturally, incline away from the suddenly more expensive factor of production, and in the direction of the now relatively cheaper one. The company will want to fire some expert operatives, and replace them with untrained ones. That is the last thing the union of skilled workers would welcome. They want enhanced pay, but without loss of employment slots. In the old blue-collar days, organized labor would denigrate their competitors, call them "scabs,"[17] and attempt to use violence against them. But times change[18]

VII. CONCLUSION

Government wage controls of any kind, whether a wage floor, ceiling, or freeze throw a wrench into labor markets and reduce the efficiency of the economy. There is no secret plan, no special law, no stroke of the administrative pen which can cheat the reality that the only way to permanently raise wages or salaries is to increase worker productivity. Without such an increase in worker productivity there is no plausible way to raise the wages of the masses. Until and unless this fact is understood among the general populous destructive labor regulations can never be removed and maximum prosperity for the masses cannot ever be fully realized.

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[17] For some strange reason, this is never characterized as "hate" speech. This, then, is not a "protected" minority group.

[18] It became politically incorrect to do so, particularly since they were disproportionately members of protected minority groups. Also, they began to fight back, which was highly inconvenient for the aggressors.

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