

A CASE AGAINST THE MINIMUM WAGE

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Abstract:

The minimum wage law is a snare and a delusion. All too many people think it is the be all and end all of economic welfare. At no particular cost, except that for a legislative enactment, peoples' wages can magically increase, with no negative repercussions, such as unemployment. Not so, not so. We demonstrate that this law does not serve as a rising floor, increasing wages on its upward path. Rather, it constitutes a barrier in terms of productivity that workers must overcome if they are to have a job, and the higher it is the harder it is to leap over.

Key words: Wages; productivity; unemployment; ethics

JEL Category: E24

Introduction

Virtually every city, county, and state in the U.S. has been gradually raising its respective minimum wage since it was first introduced in 1938¹. It was implemented during the great depression, in an attempt to lift the poor out of an economic collapse. It was not at the forefront of political campaigns until fairly recently though, specifically during the presidential run in 2016, where left-wing democrats such as Bernie Sanders were advocating the implementation of a \$15/hour national minimum wage². On the other end of the spectrum, Donald Trump opposed a minimum wage hike, but has no objections to our current \$7.25 wage³. Republican senators Tom Cotton and Mitt Romney favor a boost to \$10 per hour.⁴ So there is more than a “dime’s worth” of difference between the two major parties, but no philosophical divergence. Both accept the claim that this law raises compensation for the poor and unskilled.

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¹ “History of Changes to the Minimum Wage Law” U.S. Department of Labor Seal, www.dol.gov/agencies/whd/minimum-wage/history

² FeelTheBern.org. “Bernie Sanders on Minimum Wage.” FeelTheBern.org, feelthebern.org/bernie-sanders-on-minimum-wage/

³ Saltsman, Michael, *Trump's Minimum Wage Alternative*” Employment Policies Institute, epionline.org/oped/trumps-minimum-wage-alternative/

⁴ https://www.google.com/search?q=republicans+favor+%2410+minimum+wage&rlz=1C1CHBF_enUS724US724&oq=republicans+favor+%2410+minimum+wage&aqs=chrome..69i57j33i22i29i30.14294j0j15&sourceid=chrome&ie=UTF-8

Support for an increase in minimum wage (or the minimum wage in general) is based in a vision of equity and fairness for the less fortunate people in our society. The idea here is that it will even out the playing field, and give unskilled workers an opportunity to make ends meet more easily. While these ideas are well intentioned, one aspect should be questioned; does a minimum wage actually do what it is intended to?

We answer in the negative and thus argue that the law should not even exist in the first place. The answer to both questions is very simple: No! Governments should not implement a minimum wage for two major reasons. The first is because it is unnecessary; as people are paid based on their productivity and the mere passage of this enactment will have no effect upon that variable whatsoever. Thus there is no need for the government to step in and arbitrarily choose a wage that this person “deserves” to be paid. Second, it actually does the exact opposite of what it is intended⁵ to do, ultimately hurting those supposedly uplifted. In fact, the minimum wage leads to unemployment for unskilled workers⁶ (often fast-food workers, cashiers, janitors, etc.). The idea of having no floor on wages may seem unethical, like a recipe for exploitation, or a green light for poverty, but in reality, the effects are just about the opposite of what is widely believed.⁷

Logical Reasoning

The minimum wage law, on its face, is not an employment law. Rather, it is an unemployment law. It does not require that any employer hire any employee at any wage at all. Rather, it mandates that *if* an employment agreement is made, the pay must be at least at the level stipulated by this law. Anyone whose productivity lies below that level will therefore become unemployed by this law. Bradford⁸ has put it as follows, “The minimum wage law can be described as saying to the potential worker: ‘Unless you can find a job paying at least the minimum wage, you may not accept employment.’” (Gorman). Peter Schiff similarly wrote that “It makes it illegal for you to work unless you have a certain amount of productivity”⁹ (Rogan, 2020). For example, let’s say we have a 16-year boy who is interested in mechanics and wants to work at his local automotive repair shop. He is willing to work for a low wage because he has the leverage to do so, having little financial responsibility in his life. He can only bring \$5 in productivity to the shop by completing small tasks and whatnot. In this case, the repair shop will most likely hire him if he is willing to work for anything less than that \$5/hour. This agreement would be mutually beneficial as the young man is gaining skills and work experience, and the shop is making a small profit from his labor. Now posit the government decides that there needs to be a \$7 minimum wage. Then, the shop would lose \$2 every hour that the young man works. They are now disincentivized to employ him, because he would now

⁵ Below we relax our assumption that all advocates of this law do so for benevolent purposes.

⁶ Burkhauser, Couch, Wittenburg, (2000), *A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey*.

⁷ According to Vox: “Minimum wage increases are a politically popular means of helping low-income families...” <https://www.vox.com/2014/5/21/18079894/minimum-wage-explained>

⁸ Bradford quote found in: Gorman, Linda, et al. “Minimum Wages” Econlib, www.econlib.org/library/Enc/MinimumWages.html

⁹ Peter Schiff in Rogan, Joe, *The Joe Rogan Experience Podcast*, Episode #1508, 15 July 2020.

be a net loss for them. He will be denied this opportunity to work and gain skills because of a law that is supposed to help him. Meanwhile, the already skilled workers at the shop will maintain their employment because they can produce at a level above this minimum wage. Why should an individual who is willing to work at a certain wage be denied the opportunity? The employee is not being exploited, at least not in the *ex ante* sense, since he chooses to work for them. He decided that the opportunity cost of doing anything else with his time, is less beneficial to him than working for this \$5 wage. Of all the opportunities he sees as open to him, this is the best alternative. The consequence of the minimum wage in this case is that this young man is now prevented from obtaining the skills that would have led him to higher wages in the future, organically; he also loses out on the salary he might otherwise have been paid. There was no need for the government to step in and “uplift” this young man. With “friends” like this he scarcely needs enemies.

A similar analysis applies to internships. Only here there is no salary at all. Yet, these programs are very popular, since the interns benefit from on the job training. Surprisingly, there are people in positions of power who favor internships, and also the minimum wage law, and see no contradiction between the two.¹⁰ They attempt to distinguish between low paid work and internships on the basis of irrelevant considerations. For example, that in the one case financial profit is earned from the employer – employee relationship, whereas this does not occur with internships. Why this should matter is difficult to discern. For in both cases, people, usually youngsters, are both working and learning; why should zero compensation be legal, while pay below that mandated by the minimum wage be illicit? Logical consistency requires that both be treated in the same manner. If we take the minimum wage law seriously, then unpaid internships should also be banned.

The ultimate result of a minimum wage is long run unemployment. This conclusion follows ineluctably from simple logic. To illustrate this from the perspective of an employer, consider another hypothetical example. Suppose a McDonald’s restaurant has a labor budget of \$60/hr; it has 6 employees working at any given time, each paid at \$10/hr. Now, the local government implements a \$15 minimum wage. If this McDonald’s keeps their 6 employees working, their hourly payroll will be \$90, putting them \$30 in the red every hour they work. In order to stay open, the business must lay off 2 employees to remain profitable.

The minimum wage is not akin to a floor which rises and pulls up everyone’s wages previously below that level. Rather, it is like a high-jump bar; the higher it is, the more difficult it is to overcome it, and land into employment. If it were like a floor, it should be raised to a zillion dollars per hour, and then we would all become rich at the stroke of a legislative pen. We could end all foreign aid, contenting ourselves with recommending that poor countries raise wages to astronomical levels.

Real World Manifestations

A dramatic real-world example of the detriment of a minimum wage occurred in American Samoa. This is a small island; its economy relies heavily on exporting tuna.

¹⁰ Congressman Pelosi in one such: <https://www.youtube.com/watch?v=8pFC3LKMIQo&t=62s>

At one point, they were one of the largest exporters of this fish in the world because they had a comparative advantage in its production. Their largest company, Starkist, paid workers roughly \$3.26/hour prior to 2007¹¹. Peter Schiff described their wages as “enough to offer the average worker a standard of living that was superior to the denizens of other islands in that area of the Pacific” (Schiff, 2011). In 2007, Congress decided that the “exploitation” of these workers needed to stop, and passed a bill implementing a \$7.25 minimum wage which covered this island.

Businesses are always going to chase profit, it is in the nature of the marketplace. In order to compete these companies had to make decisions based on these new government orders. The government effectively squeezed these companies into laying their workforce off and closing down operations. This example perfectly demonstrates how minimum wage does the opposite of what it is presumably intended to. When Rep. Mark Kirk (R-IL) introduced this bill, his intention was to bring a fair wage to Samoan workers¹². The ultimate result was far more devastating than predicted. Chicken of the Sea laid off 2,041 employees (nearly 50% of cannery workers)¹³, while Starkist moved their plant out of Samoa completely. Part of the reason raising the minimum wage is so appealing is because you only see the initial effect of a pay raise, and you do not account for those who become jobless. Politicians can show how much progress their new law has made, and how fast food workers are being uplifted out of poverty through a “living wage”¹⁴. This is why it is difficult to convince unskilled workers that a minimum wage is not only unnecessary but counter-productive. It is not easy to look past the initial effect in the short term without considering the long-term detriment.

Counter Arguments

Arguments for a minimum wage, and an increase thereof are based on the claim that low wages are a product of exploitation, or that employers arbitrarily set wages. In a free market however, the worker and an employer agree on a wage. If the worker feels the wage is too low, he will look for work elsewhere, incentivizing the employer to pay him more, if his productivity is higher than his present wage. Posit that Bob’s production is \$8/hour, but his employer only pays him \$3/hour. In the view of some, the employer is exploiting him in this case because they are extracting more value from him (\$5) than

¹¹ “Upcoming Minimum Wage Hike May Doom Tuna-Canning Operations in American Samoa.” SeafoodSource Official Media, www.seafoodsource.com/news/business-finance/upcoming-minimum-wage-hike-may-doom-tuna-canning-operations-in-american-samoa

¹² News, RNZ. “American Samoa Added to US Federal Minimum Wage Bill.”, RNZ, 16 Mar. 2007, www.rnz.co.nz/international/pacific-news/168520/american-samoa-added-to-us-federal-minimum-wage-bill

¹³ Furchtgott-Roth, Diana. “Thousands Lose Jobs Due to Higher Federal Minimum Wage”, Reuters, Thomson Reuters, 14 May 2009, blogs.reuters.com/great-debate/2009/05/14/thousands-lose-jobs-due-to-higher-federal-minimum-wage/

¹⁴ “Why Do Politicians Endorse Raising the Minimum Wage, but Economists Remain Skeptical?” MinimumWage.com, 8 Oct. 2020, www.minimumwage.com/2020/10/why-do-politicians-endorse-raising-the-minimum-wage-but-economists-remain-skeptical/

they are paying him (\$3).¹⁵ We are assuming a free market though, where Bob can quit at any time and another firm in need of Bob's skills can come along and hire him at a level higher than his present wage. This incentivizes Bob's initial employer to give him a raise. This is how the free market self regulates. It follows the same principles as the goods and services market. A seller in a free market does not determine the price at which to sell his product, rather the price is determined by both buyers and sellers¹⁶. No one is compelled to buy this product at a high price because eventually there is sure to be a competitor¹⁷ who will offer a substitute at the equilibrium price. In effect, no one will buy the more expensive product, leaving that business to fail.

Livable Wage Argument

Another common argument for this legislation is we need a "living wage"; this gives the poor more spending power. Economist and UC Berkeley professor Robert Reich has been a significant proponent of this idea. In fact, he advocates a national minimum wage increase to \$15/hour for this reason. He states "a higher minimum puts more money into the pockets of people who will spend it, mostly in the local economy. That spending encourages businesses to hire more workers." (Reich, 2015)

The problem with his perspective is that it is short sighted. He is only considering the workers who will see a temporary pay increase, not those who will be unemployed immediately and in the long run. Yes, he is correct that some employees will now be earning more money, therefore have more spending power, but what about those who lose their jobs and will have zero income to spend in the market? There is an evident logical fallacy in his argument, which he demonstrates in the conclusion of his article; he says "Even if a \$15 an hour minimum wage risks job losses, it is still the right thing to do." (Reich, 2015). He admits that unskilled workers will be consigned to a life of joblessness yet defends it anyway. What makes it "the right thing to do" if it will cause unemployment for the people it intends to uplift? Why does he only care about those who will benefit and not those who will be left with nothing?

Morality Argument

Then there is the argument for a minimum wage increase on the ground that poverty is unjust! During his 2013 State of the Union address, then President Barack Obama averred „A family with two kids that earns the minimum wage still lives below the poverty line. That's wrong... Tonight, let's declare that, in the wealthiest nation on Earth, no one who works full time should have to live in poverty, and raise the federal minimum wage to \$9 an hour." (Obama, 2014). The argument that someone should be

¹⁵ This is an idiosyncratic and erroneous way of looking at the matter, however. Since the employee has agreed to the wage, he, too, makes a profit: he values the \$3 he receives more than whatever else he could be doing with his time. A sells B a rowboat for \$1000. A values it at \$900, B at \$2100. Did B then "exploit" A because he earned more profit from the deal? No. Neither exploited the other. Rather, both gained ex ante, A to the tune of \$100 and B at \$1100.

¹⁶ In technical terms, the marginal one of each.

¹⁷ We abstract from the case of monopoly and monopsony, which do not exist in the labor market at the ranges of minimum wages.

able to live reasonably well while working full-time makes a lot of sense, as does wanting wages to increase. The problem is that this is a circular argument; it assumes as true the very point in contention: does this law really reduce poverty?

Henry Hazlitt, in his book *Economics in One Lesson*, demonstrates that it will not:

“All this is not to argue that there is no way of raising wages. It is merely to point out that the apparently easy method of raising them by government fiat is the wrong way and the worst way.”

(Hazlitt, ch. 18)

He reasons:

“The best way to raise wages, therefore, is to raise labor productivity. This can be done by many methods: by an increase in capital accumulation—i.e., by an increase in the machines with which the workers are aided; by new inventions and improvements; by more efficient management on the part of employers; by more industriousness and efficiency on the part of workers; by better education and training. The more the individual worker produces, the more he increases the wealth of the whole community. The more he produces, the more his services are worth to consumers, and hence to employers. And the more he is worth to employers, the more he will be paid. Real wages come out of production, not out of government decrees.”

(Hazlitt, ch. 18)

Hazlitt perfectly illustrates how an increase in wages must be a product of an increase in productivity. Labor is not charity, you earn what you produce, at least at equilibrium.¹⁸ No company is going to lose money to make their employees happier, that’s nonsensical. If they did, they would go broke, and their workers would suffer. The way to earn a greater salary is to produce more; and that is accomplished through gaining skills¹⁹.

Suppose the authors of the present paper were to make the following offer: “Come work for us; we’ll pay you \$5.00 per hour.” Have we thereby violated rights? Have we worsened the condition of anyone on the planet? Of course not. We are not forcing anyone into taking a job at this relatively low pay scale. Yet, if we were serious about this offer we would be subject to imprisonment. You, too, if you accept this position would also be at risk for a jail sentence, since both sides of this transaction would be breaking the law. In all likelihood, the employer in such a situation would be seen as a criminal, and the employee as a victim, and therefore innocent, even though both would be acting illegally. But for this contract to be immoral, at least someone should be hurt by it.

¹⁸ True, we never quite arrive there, but we are always tending in that direction.

¹⁹ Phelan, Written by John, and John Phelan. “*Increasing Productivity, Not the Minimum Wage, Is the Way to Increase Worker's Pay.*” American Experiment, 19 Aug. 2020, www.americanexperiment.org/2017/06/increasing-productivity-not-the-minimum-wage-is-the-way-to-increase-workers-pay/

However, no one is. Insofar as the potential worker is concerned, all we have done is widen his options. He is certainly free to avoid our “offer.”

The Card and Krueger Argument

Card and Krueger (1998) makes the most compelling arguments for a minimum wage. They ran a 1992 study on the fast food industries in New Jersey and Pennsylvania in which they took statistics from 410 fast food restaurants in these states before, during, and after a minimum wage hike in New Jersey. Both states had a \$4.25 minimum wage at the time, while New Jersey was in the process of raising theirs to \$5.25 on April 1, 1992, while Pennsylvania stood pat in this regard. Card and Krueger described their study as: “Comparisons of employment, wages, and prices at stores in New Jersey and Pennsylvania before and after the rise in the minimum offer a simple method for evaluating the effects of the minimum wage.” (Card and Krueger, 1998, page 1). They called all the fast food restaurants in the region to conduct their telephone surveys and register employment statistics. After conducting their study, they found no evidence showing that a raise in minimum wage caused any unemployment. They state: “Contrary to the central prediction of a textbook model of the minimum wage, but consistent with a growing number of studies based on cross-sectional-time series comparisons of affected and unaffected markets or employers, we find no evidence that the rise in New Jersey's minimum wage reduced employment at fast food restaurants in the state. Regardless of whether we compare stores in New Jersey that were affected by the \$5.05 minimum to stores in eastern Pennsylvania (where the minimum wage was 35 constant at \$4.25 per hour) or to stores in New Jersey that were initially paying \$5.00 per hour or more (and were essentially unaffected by the new law), we find that the increase in the minimum wage slightly increased employment.”

Flaws

The study did not prove what Krueger and Card claim it did, because of a major flaw. The study was conducted in late February and in early March, roughly a month before the scheduled increase. The problem with this is that the restaurants in New Jersey by this time, surely, had prepared for this increase. They had plenty of time to anticipate the new law by laying off and reducing work weeks for employees. They had 2 whole years to adjust! It is not as if the businesses would wait until the day of the increase to suddenly adjust, that would be foolish. This is the main reason why the statistics did not show a shift in employment at the precise time the law was enacted.

Worstell (2011) counters Card and Krueger (1998, 2000), but for a different reason. He finds that “Card and Krueger were looking for their evidence in the wrong place”. This is because large food chains are not “labor intensive” like independent businesses. Worstell writes “The chains are better equipped, differently supplied (things as seemingly trivial as buns for hamburgers arriving pre-cut instead of having to be sliced open in store) and labour as a portion of turnover is much lower (and capital correspondingly higher) than in that independent sector”. This explains a lack of direct unemployment statistics after the wage hike. Another difficulty with this finding is that

other economists were unable to replicate the empirical findings of Card and Krueger, and replicability is the sine qua non of statistical work.²⁰

Conclusion

The minimum wage argument will continue to be a large scale political topic in the years to come, especially as the cost of living continues to rise in most cities. The hike to \$15/hour will be controversial but there will be no talk of the removal of the law in the first place. Based on logic and statistical evidence, it is clear that the minimum wage is detrimental. It hurts the unskilled workers in society.²¹

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²⁰ For additional critiques of Card and Krueger, see Block, 2001; Burkhauser, Couch and Wittenburg, David, 1996; Burkhauser and Finnegan, 1989; Gallaway and Adie, 1995; Hamermesh and Welch, 1995; Neumark and Wascher, 1992, 1995, 2000.

²¹ For further criticisms of the minimum wage law along the lines laid out in the present paper see Batemarco, Seltzer and Block, 2014; Becker, 1995; Block, 2001; Cappelli, and Block, 2012; Deere, Murphy and Welch, 1995; Friedman, Undated; Hovenga, Naik and Block, 2013; Klein and Dompe, 2007; Lingenfelter, et al., 2017; McCormick, and Block, 2000; Rothbard, 1988; Rustici, 1985; Sowell, 1995; Williams, 1982.

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