Unemployment by Legal Decree

Bettina Bien

Consider the person who is incapable of earning the legally-fixed minimum wage.

LAST YEAR, when Congress was debating the question of a new minimum wage law, labor unions were strong in their praise of such a bill. When the new minimum of $1.00 an hour for workers in "covered" industries became effective on March first of this year, they patted themselves on the back for their part in its passage. At the same time, they promised their members to work for broader coverage at a still higher rate. A minimum wage law, they would have us believe, is the open sesame to the Utopia of higher living standards for everyone, particularly for the poor. But is it?

Our first federal minimum wage law was enacted in 1938 — the so-called Fair Labor Standards Act. Its principal objective was to foster "the minimum standards of living necessary for health, efficiency and well-being of workers." Our relationship with Puerto Rico then was such that the Act applied there also. Yet the Act led to such confusion and distress among Puerto Rican workers that they were later exempted from the 25¢ minimum wage which had been set nationally. Why? If the purpose of the law was to improve living standards, why discriminate against workers who were obviously much lower paid than those on the continent?

Although Puerto Rico has since gained a large measure of self-government, some of its laws still originate in Washington. This was true of the recent provision for a minimum wage of $1.00 per hour. Therefore, Congress discussed its likely consequences in Puerto Rico. A detail of congressmen visited the island to investigate. There was concern that the law, if applied in Puerto Rico, would lead to increased unemployment there.* In this country, Director

*According to one estimate, unemployment in Puerto Rico amounts to about 16 per cent of the working force. Perhaps the legal minimum wage is already too high for the market. Compare, for instance, the estimated percentages of unemployed in the U. S. labor force during the Great Depression.

1930 — 7.8%	1934 — 20.2%
1931 — 16.3	1935 — 18.4
1932 — 24.9	1936 — 14.5
1933 — 25.1	1937 — 12.0
	1938 — 18.8

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Joseph Monserrat, of the New York Office of the Puerto Rican Department of Labor, warned that the flat 25¢ minimum wage rate enacted in 1938 "did create unemployment."

The version of the law finally approved by the Puerto Rican House of Representatives raised the legal minimum wage for the island's garment workers from 70¢ an hour to $1.00. David Dubinsky, president of the International Ladies Garment Workers Union, was interested in this development; for his union had organized one group of the island's garment workers, the brassiere makers. Their pay then averaged about 80¢ an hour. Mr. Dubinsky feared that the $1.00 minimum wage, if it were enforced, would mean unemployment for many of the members of his union in Puerto Rico. According to newspaper reports of a meeting of the ILGWU last May he charged that Puerto Rican legislators were trying to "play a trick on us by giving us for political reasons a high minimum in brassieres and later blaming it on Dubinsky and the ILGWU that the workers are starving and have no work."

Apparently, Mr. Dubinsky was not alone in recognizing the potential threat inherent in a legal minimum wage set higher than the market could afford. The Governor of Puerto Rico, Luis Muñoz Marin, later reported to the ILGWU that the island's Legislature had decided to exclude brassiere makers from the new legal minimum wage.

These men, who feared the effects of a legal minimum wage set higher than the Puerto Rico economy warranted, were recognizing a simple economic principle. Goods or services, priced higher than demand justifies, will not find a buyer on a free market. Any retail merchant knows the truth of this statement. Experience with agricultural price supports should have taught our government officials by now the inexorability with which this principle operates. The theory applies in the same way, whether one is dealing with the price of wheat, cotton, butter, or an hour of a man's labor. If the seller will not, or cannot because the law forbids it, adjust his price in accordance with the demand, he faces the prospect of "unemployment" for his wheat, cotton, butter, or labor.

A seller is entitled to the price a consumer is willing to pay for what he offers. A worker, who is the seller of his own labor, is entitled to the wage an employer is willing to pay. For practical reasons, the employer is usually guided, in deciding how much he can pay, by his estimate of the price consumers will pay for the worker's product. The market price of the worker's contribution will vary with the constantly changing structure of the market. Consequently, any attempt to set the rate by law will sooner or later lead to discrepancies in the pricing system and to distortion of the pattern of production.

A legal minimum wage rate set lower than the market rate has no significance, aside from the expense of legislating and setting up a bureaucracy for its "enforcement."

If a minimum wage rate is set higher than the market rate, it hurts the very persons it is designed to help — the lowest producers, and hence the lowest earners. The first to be fired, when a new minimum wage rate is set, are those who cannot contribute enough to the market to cover the cost of their wage. No employer can afford to retain such employees for long, lest his expenses exceed his intake, forcing him out of business. If the law causes an entrepreneur to close his doors, not only the poorest earners but also all other workers in the enterprise lose their jobs. The whole economy is poorer, as well, for there is less production offered on the market.

A minimum wage rate which coincides exactly with the market rate does neither "good" nor "harm," so long as the market rate remains the same. But changes are constantly taking place in this world of acting human beings. It is inevitable, therefore, that the wage the market determines must sooner or later depart from a wage set by law, even if the two should happen to coincide temporarily. The legally determined wage, then, will be either below the market, and hence meaningless, or above the market, and hence a cause of unemployment.

When men are dissatisfied with the workings of the market, they sometimes pass laws to try to change the way it functions. Their best intentioned legislation, however, may prove harmful to the very individuals they want to help.

Modern politicians, who try to legislate high wages, should realize that such laws help cause unemployment among the workers "covered." It is a basic economic truth that goods or services priced higher than the market warrants must inevitably remain unemployed. Both Mr. Dubinsky and the Puerto Rican legislators, in opposing the increased minimum wage rate for the island's brassiere makers, were acknowledging a fundamental economic truth.

Luxuries into Necessities

Ludwig von Mises

WHAT was once a luxury becomes in the course of time a necessity.

There was in the past a considerable time lag between the emergence of something unheard of before and its becoming an article of everybody's use. It sometimes took many centuries until an innovation was generally accepted, at least within the orbit of Western civilization. Think of the slow popularization of the use of forks, of soap, of handkerchiefs, and of a great variety of other things.

From its beginnings capitalism displayed the tendency to shorten this time lag and finally to eliminate it almost entirely. This is not a merely accidental feature of capitalistic production; it is inherent in its very nature. Capitalism is essentially mass production for the satisfaction of the wants of the masses. Its characteristic mark is big scale production by big business. For big business there cannot be any question of producing limited quantities for the sole satisfaction of a small élite. The bigger big business becomes, the more and the quicker it makes accessible to the whole people the new achievements of technology.

Centuries passed away before the fork turned from an implement of effeminate weaklings into a utensil of all people. The evolution of the motor car from a plaything of wealthy idlers into a universally used means of transportation still required more than twenty years. But nylon stockings became, in this country, an article of every woman's wear within hardly more than two or three years. There was practically no period in which the enjoyment of such innovations as television or the products of the frozen food industry was restricted to a small minority.

The disciples of Marx are anxious to describe in their textbooks the "unspeakable horrors of capitalism" which, as their master has prognosticated, results "with the inexorability of a law of nature" in the progressing impoverishment of the "masses." Their prejudices prevent them from noticing the fact that capitalism tends, by the instrumentality of big-scale production, to wipe out the striking contrast between the mode of life of a fortunate élite and that of the rest of a nation.

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