The Minimum Wage: An Unfair Advantage for Employers

by Donald J. Boudreaux

Suppose you want to help the sellers of a specific product. One thing you might want to do is try to ensure that a buyers' market for that good or service isn't created.

A buyers' market is an economic situation that favors buyers over sellers. For example, everyone hopes that the real-estate market in his hometown will be a sellers' market when the time comes to sell his house. No one wants to have to sell a house when real estate is in a buyers' market. Nevertheless, people who advocate minimum-wage legislation to improve the lot of unskilled workers in effect support government creation of a buyers' market as a way to help sellers of unskilled labor.

Freely Moving Prices: The Great Equalizer

Economics and common sense teach us that, other things being equal, as the price of a product rises, more units will be offered for sale but fewer units will be demanded by consumers.

If a price is too low, there will be an excess demand for the good or service in question, and buyers will compete for the limited quantities available by offering higher prices to sellers. If a price is too high, there will be an excess supply, and sellers (who cannot sell all that they wish at the high price) will compete for customers by offering lower prices. So long as there are no government-imposed restrictions on prices, prices will tend to adjust in each market so that the quantities demanded will be equal to the quantities supplied.

It is important to realize that prices change only when there are bargaining inequalities between buyers and sellers. Prices rise only when the amount demanded by buyers is greater than the amount supplied by sellers; prices fall only when the amount demanded by buyers is less than the amount supplied by sellers. Put another way, prices rise only when there is a sellers' market, and prices fall only when there is a buyers' market. *The rise or fall of prices, however, eliminates the inequality of supply and demand and, thus, eliminates the conditions that people describe as sellers' markets and buyers' markets.* Freedom of price adjustments ensures equality of bargaining power among buyers and sellers. Freely moving prices are the great equalizer.

Employers compete for human labor services, like most things of value in a society based on private property in a market in which sellers and buyers engage in voluntary exchanges. Wage rates (in combination with other forms of compensation) are determined in the labor market. If this market isn't hampered by government, wages will constantly adjust so employers and employees enjoy equal bargaining power.

Of course, unskilled workers aren't as productive as workers with greater skills, and so wage rates for skilled labor tend to be higher than wages for unskilled labor. It is a myth, however, that highly skilled workers enjoy greater bargaining power with employers than do workers

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with fewer skills. If wage rates are free to adjust to their market-clearing levels, unskilled workers will enjoy as much bargaining power as the most highly skilled workers, because freely moving wage rates adjust so that the amount of each type of labor demanded will tend to equal the amount supplied. Employers can have no bargaining advantage over even the most unskilled workers if wage rates are free to move to the levels at which the amount of labor services demanded is equal to the amount supplied by workers. Freely moving wage rates are the great equalizer of bargaining positions among employers and employees.

The Minimum Wage: The Great Unequalizer

Minimum-wage legislation prohibits wages from falling low enough to equate the number of people seeking jobs with the number of jobs being offered. As a result, the supply of unskilled labor permanently exceeds the demand for unskilled labor at the government-mandated minimum wage.

Minimum-wage legislation thus creates a buyers' market for unskilled labor. And as in all buyers' markets, buyers (employers) have an unequal bargaining advantage over sellers (unskilled workers).

Consider, for example, a grocer. Suppose he decides that a clean parking lot will attract more customers, and that this will increase his sales by $10 per day. Of course, the grocer will pay no more than $10 a day to have his parking lot cleaned. He then investigates how best to get this done.

Suppose there are two options available to him. One way is to hire a fairly skilled worker who can clean the parking lot in one hour, while the second way is to hire two unskilled workers who, working together, will get the job done in the same time. Other things being equal, the grocer will make his decision based upon the relative cost of skilled versus unskilled labor.

Let's assume the skilled worker will charge $6 an hour, while each of the unskilled workers will charge $2.50 an hour. In a free labor market, the grocer will hire the two unskilled workers because, in total, it costs him $5 per hour for the unskilled workers whereas it would cost $6 for the one skilled worker.

But what will the grocer do if a minimum wage of $4 per hour is imposed? To hire the two unskilled workers will now cost him a total of $8 an hour. The skilled worker now becomes the better bargain at $6 an hour. Minimum-wage legislation strips unskilled workers of their one bargaining chip: the willingness to work at a lower wage than that charged by workers with more skills. The result is unemployment of the unskilled workers.

Consider another effect of the minimum wage. Because there are more people who want jobs at the minimum wage rate than there are jobs to go around, employers have little incentive to treat unskilled workers with respect. If an employer mistreats an unskilled worker, the employer need not be concerned if the worker quits. After all, there are plenty of unemployed unskilled workers who can be hired to fill positions vacated by workers who quit.

In addition, the permanent buyers' market created by the minimum wage encourages employers to discriminate in their hiring and firing decisions on the basis of sex, race, religion, and so on. Suppose an employer has two minimum-wage jobs available, but there are ten unskilled workers who apply for the jobs. Because the workers are prohibited from competing with each other on the basis of wage rates, other factors must determine which of the workers will be hired. If the employer dislikes blacks, and if there are at least two non-black workers who have applied for employment, no black workers will be hired. With a surplus of unskilled workers, there is no economic incentive to stop this bigoted employer from indulging his prejudices.

Conclusion

Minimum-wage legislation creates an excess supply of unskilled labor and gives the buyers of unskilled labor an unfair bargaining advantage over the sellers of unskilled labor. It is a fantasy to believe that the welfare of unskilled workers can be improved by such legislation. Unskilled workers shouldn't be restricted to a permanent buyers' market. □

Free Market Money in Coal-Mining Communities

by Richard H. Timberlake

"In the company town, or mining camp, . . . United States coin and currency were not in good supply. . . . During the heyday of the old company town, scrip circulated more freely than U.S. currency and was indeed the coin of the realm. . . . Eleanor Roosevelt . . . in the mid-thirties, during [one of] her humanitarian crusades, attacked the use of scrip by coal mining companies as a very evil thing. . . .

Although many mourn the days of a bustling and active coal economy, little can be said to support the . . . issuance of scrip." (Truman L. Sayre, "Southern West Virginia Coal Company Scrip," in *Trade Token Topics,* reprinted in *Scrip,* Brown, 1978, pp. 343-344)

1. The Possibility of Free Market Money

Ever since the abolition of the operational gold standard in the early 1930s, the federal government through its agent, the Federal Reserve System, has been almost the sole creator of the monetary base, and has also been the licensing agent for the banks that create most of the demand deposits used in the United States. No money of any significant amount can be created today without some sanction or act of the Federal Reserve System.

This condition has encouraged the notion that government is a necessary, or at least desirable, regulator of any monetary system—that without government involvement any monetary system quickly degenerates into "chaos." If this supposition were valid, the evolution of money could hardly have occurred. The barter system that preceded early monetary systems, in which government had no part, would not have been superseded if the resulting monetary systems were destined to be chaotic. This logic suggests the possibility and perhaps the feasibility of a non-government money. However, the practical efficacy of such a system cannot be deduced from a theory that merely suggests its possibility, but must be sought from historical evidence of monetary arrangements that have developed spontaneously in the private sector.

This paper examines one such incidence of private money creation—the issue and use of scrip, which occurred primarily in the isolated economic environments of mining and lumbering company towns during the first half of the twentieth century. Fortunately, numismatic collections and records reflect the operational character of the scrip systems in these communities so that some evaluation of their monetary properties is possible.

Much of the recent research on the creation of private money has focused on that issued by private banks in the presence of a dominant legal money such as gold. (White 1984, Sylla 1976, Rolnick and Weber 1982) The issue of scrip, however, had nothing to do with banks. It was issued by private mining and lumbering enterprises. While it, too, was redeemable in a dominant money, its issue and acceptance were not critically dependent on any dominant money. For this

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