

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910

March 1995

MINIMUM WAGES

Few economic laws, if any, are more malicious and malignant than minimum wage laws. They prohibit workers from accepting employment unless they are paid at least the minimum. They order employers to use only workers who qualify for the minimum and reject all others. The laws erect a hurdle over which all American workers are forced to jump.

The employment hurdle actually is higher than the stated minimum, be it \$4.25 or \$5.15 an hour. It is higher by the costs of mandated fringe benefits which employers are forced to pay. There are Social Security contributions, unemployment and workmen's compensation, and paid holidays. The \$4.25 minimum wage is at least a \$6 an hour minimum cost. In some industries with high workmen's compensation levies, such as heavy industries and construction, the minimum cost may be \$7 per hour or more. If local governments levy payroll taxes, they raise the hurdle by the same amount. Similarly, the costs of health insurance which many employers carry raise the height of the hurdle.

The only relevant minimum is the total minimum, that is, all the costs an employer must bear to secure the services of a worker. If the costs exceed his or her productive contribution, they inflict losses. It does not matter whether the losses result from a higher minimum mandate or a boost in Social Security taxes or workmen's compensation. A

worker who inflicts losses on his employer is likely to be disemployed.

In the United States, minimum wage legislation does grievous harm to millions of unskilled laborers, especially among the racial and ethnic minorities — blacks, Puerto Ricans, Chicanos, Mexicans, and American Indians. About one-third of these workers are teenagers, almost one-half are twenty-five to sixty-five years old, and some 17 percent are seniors, sixty-five years old or older. Two-thirds of this unskilled labor are female. Although they comprise only ten percent of American labor, the harm done to them and society is greater by far than their numbers seem to indicate.

It is an unfortunate fact that many minority youths possess lower levels of education, training, and experience than white youths and, therefore, are less competitive in the labor market. Without the strictures of labor law, they would not be able to earn as high a wage as their more productive co-workers but would find ready employment at lower rates. If the minimum wage is set above their productive ability, they are likely to be dismissed or not hired at all. This explains why the unemployment rate of black youth in recent years has ranged between 40 percent and 50 percent, which is double the rate of white teenagers. If we add those individuals who in frustration and desperation have given up their search for employment, the unemployment rate

among black youth, in our estimate, exceeds 60 percent.

No matter how tragic the economic effects may be on certain groups of victims, we must not overlook the psychological harm done and the moral wrong inflicted on them. Condemned to idleness and uselessness in a highly productive society, and barred from making their own contributions, many, in desperation, turn to vice and crime. The inordinate national crime rate attests to much despair in the centers of unemployment and public assistance. Moreover, let us not forget the productive members of American society who not only must forgo the valuable services which the unemployed could render, but also are forced to support them. In return, they are compelled to live in constant fear of crimes against their persons and property.

Every well-known economist has voiced his concern about minimum wage legislation, and yet, it survives sober reasoning and cogent arguments, living on in the sphere of politics. Few politicians actually believe that minimum wage legislation is truly in the workers' interest, that it increases their purchasing power and reduces poverty; and yet, many support it for political reasons. It is clever politics, yet so cruel and insincere, to promise higher wages by law, but, unable to deliver on the promise, instead raise the height of the hurdle to employment. It is politics at its worst.

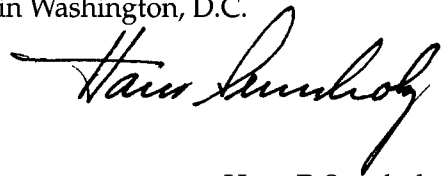
The politicians are urged on by labor unions and their members who benefit significantly from legal boosts in minimum wages. Boosts obviously hurt industries using unskilled labor in competition with union labor. They may force marginal enterprises to curtail production or even shut down, which would benefit union shops. To benefit their members at the expense of non-members is a primary function of all

unions. They call this "self-interest"; it is injury and malice to their victims.

Most of the support for minimum wage legislation comes from people who are fully aware of its unemployment effects. Many Americans in the industrial states of the North and Northeast use the law knowingly as a barrier to the industrial migration from the states to the South. Since World War II, many companies have left the North to take advantage of lower labor costs and other advantages in the South. To impede this industrial migration and to stifle Southern competition, the Northern politicians usually clamor for higher minimum wages.

Other advocates who are aware of the harm done to unskilled workers are convinced that the beneficial effects, as they see them, tend to outweigh the evil effects. Their blind faith in political action leads them to believe that evil consequences can be alleviated by new governmental efforts, such as neighborhood youth corps, job corps, public works programs, retraining programs, more aid to education, etc. To them, minimum wage legislation is a convenient path to ever bigger government and bureaucratic control.

If minimum wage legislation could actually lift wage rates and standards of living, the poverty of the world could be eradicated forthwith. The governments of Bangladesh, Sri Lanka, and Tanzania would merely have to walk in the footsteps of the U.S. government and lift wage rates by mandate. Unfortunately, what is foolish and absurd in Dhaka, Colombo, and Dar-es-Salaam is the same in Washington, D.C.



Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.

You cannot comfort all in distress, nor support all the underprivileged.

But you can stand by FEE which brings the light of freedom to the world.