

That Old Minimum-Wage Magic

You don't have to actually think that legislating and raising the minimum wage will help low-skilled workers earn more money. That's not the point. The point is to display your correct political religion. Today favoring stepping the minimum wage up to \$15 an hour is part of the so-called progressive dogma, or civic religion. Progressives who oppose \$15 would likely have their credentials questioned or yanked. They would be branded heretics on Twitter. And religiously minded people, even if the religion is secular, rarely like heretics. They must be rooted out, shamed, and if possible, induced to recant.

What gives force to this take on the subject is that the case against legislating a minimum wage is nothing like rocket science. It's rather simple logic. If someone can't produce something like \$15 worth of goods or services in an hour, why would a law forbidding any wage below \$15 help that person? Common sense would tell almost anyone that it will be of no help whatever, and studies bear this out. You may ask how wages and productivity are determined, and the answer lies in the competitive market process. Arbitrariness is driven out by rivalry among entrepreneurs trying to maximize their profits. (More on this below.)

So someone whose productivity is below \$15 won't be hired, and those with jobs may well be fired and replaced either by people with higher skills (which is why unions support the minimum wage) or machines. Either way, that's not good for the stated beneficiaries of the law. It wouldn't be the first time that the stated beneficiaries of a policy turn out not to be the same as the actual intended beneficiaries. Many lies go into policy-making. Remember Bismarck's insight that it would be better if the people didn't see how laws and sausages are made. Better for whom?

Okay, maybe not every low-skilled worker will lose the job. Employers have avoided firing people (not necessarily a pleasant experience or good for morale) by cutting other aspects of a job. Maybe, in firms' efforts to cut their losses, the workers will have their hours reduced so that total payrolls don't change, or workers may lose other on-the-job opportunities and noncash benefits, such as formal training for advancement and other amenities. That's not necessarily an improvement for low-skilled workers.

Depending on particular market conditions, companies may be able to pass a wage increase on to consumers through higher prices. But let's not forget that many consumers also have low incomes, so where is the general gain in welfare? If people eat fast food less frequently because of the price hike, how does that help workers? One thing we can predict is that the least-efficient firms may be driven out of business, killing jobs for more than the unskilled.

The point is that Adam Smith's invisible hand will continue to operate. Companies will find ways to avoid losing money. They aren't charities after all; they're businesses. If they go out of business, all their employees will lose jobs. People who want to help low-skilled individuals should find other, peaceful, ways that don't impose requirements on others, especially when they harm the vulnerable in the process. If you really want to help, find a charity that assists the low-skilled to gain the skills they need to make higher wages. When the competition (including from small-scale self-employment and cooperative management) is free, wages tend to correspond to productivity, so the key to improving low-skilled workers' wages is to increase their productivity. Mucking with the price system is the wrong way to go because prices, including wages, are indispensable *signals* that guide our activities in a world of scarcity. If government distorts the signals (which it does in many ways), it misleads individuals as they try to improve their situations. (It's a sobering thought that our well-being hinges on people learning to appreciate something as so seemingly boring as price theory. It's not really boring.)

The government can help low-income by removing the myriad barriers to improvement, starting with the monopoly schools, which give no more than crumbs to kids growing up in lousy circumstances. Also on the policy hit-list should be occupational licensing, zoning and other land-use controls, intellectual property laws, and anything else that bars or impedes free-lance competition against vested business and labor interests.

This assumes the minimum wage is well-intentioned. While I'm willing to assume that most people who favor it do mean well, can that really be said for organized labor, whose members make far more than even \$15 an hour? Maybe labor organizations are willing to spend so much on lobbying for the wage because they anticipate that when low-skilled workers are let go, higher skilled workers, potential union members, will take their place. We should also understand that in early days, progressives caught up in the eugenics movements favored the minimum wage as a way to keep undesirables out of the workforce.

Some defenders of the minimum wage will insist economic theory is on their side. But when will they explain how a worker who is worth \$15 an hour persists in being paid less than \$15? Even in our government-saturated economic system competition exists for low-skilled workers; the fast-food industry is just one example. If workers really do produce \$15 worth of value in an hour, why hasn't the wage been bid up simply through competitive hiring among all the fast-food rivals? It has not been explained why alert fast-food entrepreneurs haven't offered a wage somewhat higher than the prevailing wage to lure the best workers. That competitive move would set in motion a rivalrous process that would culminate in \$15, if that is indeed the magic number under current circumstances. It seems unlikely that every fast-food owner and manager in the country once met in a room somewhere and agreed not to pay more than, say, \$10. So what's the theory? Keep in mind that many fast-

food and other low-skilled workers already earn more than the legislated minimum, \$7.25. Ask yourself why.

There is no theory. Rather, as I said at the top, it's a religious creed and nothing more. Questioning it is a sin. But obviously it's not harmless. As one economist put it, the minimum wage has the same effect as a law banning low-skilled people working. Who would support that?