



Another Minimum Wage Hike: But Will It Help?

In another example of turning lemonade into lemons in economically troubled times, the federal minimum wage increased yesterday from \$6.55 an hour to \$7.25 an hour. It's certainly a fashionable measure, but will it actually improve the lot of low-income workers?



Let's first discuss what the minimum wage is not. It's not something that's constitutional for the federal government to set; such power rightly resides with the states, depending on each state's constitution. It's also not, contrary to the usual narrative, something on which many millions of Americans must support families. In fact, only about three percent of the workforce earns minimum wage; moreover, a majority of this population comprises the very young and those who are not primary breadwinners. For example, the Heritage Foundation [tells us](#), "Over half (53 percent) are teenagers or young adults under the age of 23. More than half (54 percent) of these young workers live in families with incomes two or more times the official poverty level for their family size and 18 percent live in poor families.... Less than 21 percent of minimum wage workers are the sole breadwinners of their families and less than 5 percent are sole breadwinners that work full-time year-round. Less than 5 percent of minimum wage workers are poor single mothers over 18 years old."

In other words, the stereotype of the minimum wage worker as a pimply-faced kid in a hat taking your order at the burger joint is somewhat accurate.

Of course, having said this, no one likes sweat shops, and we all have a moral obligation to pay workers a just wage. Yet there can be problems when government slaps a one-size-fits-all standard on the workforce. So let's analyze the matter a bit more deeply.

I'll introduce this with a statistic presented in a *Hudson Star-Observer* article about how Wisconsin's minimum wage has just risen to match the federal government's \$7.25 figure. The paper writes, "The U.S. Labor Department says the average Wisconsinite who makes the minimum wage will get an extra



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\$112 a month."

It's certainly a good talking point, but is it true? In a sense, it is — but only in a sense. Let me clarify: the average Wisconsinite who will still be employed in a minimum wage job — and who is still working as many hours as before — once companies have adjusted their workforces in accordance with the new pay scales will earn an extra \$112 a month.

Ah, the fine print. This is why we have that saying usually attributed to Benjamin Disraeli, "There are three kinds of lies: lies, damned lies and statistics." Statistics can be valuable, but a single statistic is often just one piece of a puzzle and thus creates a skewed picture when presented in isolation (a woman earns 78 cents for a man's dollar, anyone?). This makes the cherry-picking of statistics a favorite tactic of demagogues.

This is also why famed French economist Frederic Bastiat once said, "There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen*." We always must consider the statistics behind the statistic. If a change could be made in an otherwise static economic system, the Labor Department's forecast might be a good guide; however, every action inspires a number of reactions, and it's important to gauge what they may be.

As for raising the minimum wage, certain things can be foreseen. Since employers' cost of doing business will increase *all other things being equal*, it's logical to conclude that businesses will compensate so that some other things are not equal. They could raise prices, but the market does limit what they can charge; if they demand more, consumers buy less, so it won't necessarily increase their profits. Businesses could cut costs elsewhere, but this is easier said than done. After all, if they could simply reduce expenses, it's logical to think that, generally speaking, they would have done so already to maximize profits.

So what is the most likely scenario? Businesses will cut back on the resource that has suddenly become more expensive to obtain and thus no longer conforms to their business model: legal minimum wage workers. In other words, to the extent that cutting costs is infeasible and increasing prices causes reduced demand, they will simply curtail production and cut the workers associated with it. Alternatively, since raising the cost of legal workers increases the incentive to hire illegal ones, businesses will be more likely to hire people off the books; in particular, this often means illegal aliens.

Of course, I won't be as simplistic as those who exalt orphaned statistics. In reality, all the aforementioned possibilities may become reality: businesses may increase prices and cut costs to a degree as well as shedding those legal workers. The point is, however, it's illogical to think the latter wouldn't happen to some degree.

To understand this issue more fully, it's important to realize that workers are commodities with a certain value when viewed within the context of a free market model (I don't mean to objectify people, but for the purposes of this discussion, this is instructive). And while you can arbitrarily mandate that a certain type of worker gets paid more, you cannot mandate that he be *worth* more.

To illustrate this point, consider a pizza delivery man earning \$8 an hour and a neurosurgeon earning \$400 an hour. What's significant isn't that the latter earns \$392 more but that the market has determined his worth to be 50 times as great. Why? Because this ratio will always remain the same in a free market system as long as their relative value remains constant. In other words, let's say you increased the pay of the pizza delivery man and all other low-wage workers to \$20 an hour. It's logical



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to assume that inflation would ensue and that, over time, the neurosurgeon's pay would increase until it once again was 50 times that of the pizza man.

The best way for the pizza man to draw a salary that will actually be worth more relative to the neurosurgeon's is for him to increase his value by developing greater skills (e.g., learning computer programming). In fact, this is exactly what many pizza men and other low-income workers do: they acquire skills — both on the job and off the job — that enable them to acquire higher-paid jobs. But if the minimum wage causes them to lose their jobs, they no longer have the means to earn some income or to develop job skills and work habits that will help them to earn greater income in the future.

Of course, some will ask why the doctor's pay couldn't just be capped. It could, but a rule of economics is that price caps inevitably lead to shortages. This is why medical care is rationed under socialized medicine systems.

Now, here a critic may say, "Wait, Duke, theoretically, improving skill won't always increase your worth. After all, what if everyone else improves his skills proportionately?" This is a fanciful scenario, but the point is valid. For example, if every person had a doctorate, one of two things would happen. One is that your pizza delivery man would have a Ph.D.! The other is that you wouldn't have a pizza delivery man. This is the old "jobs Americans won't do" scenario, which really means "wages Americans won't work for." Because if it costs far more to attract applicants for the position, the cost of the service may be more than consumers are willing to pay. This is when you start picking up your own pizza. And you know what else it is?

It's exactly what can happen, to a degree, when you arbitrarily raise the minimum wage.

If we really are serious about increasing the pay of low-wage workers, there is something simple we can do to increase their value: eliminate the immigration invasion — in particular, the illegal variety. This would shrink the pool of such workers, thus making them rarer commodities. It's supply and demand.

And what about not having enough Americans to deliver pizza and pick fruit? Well, if the able-bodied were denied welfare and were themselves having to work for a living, that would go a long way toward solving that problem.

Of course, though, these suggestions are not very politically correct and don't win votes. Raising the minimum wage is very politically correct and does win votes. So that's what the politicians choose to do.



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