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RECONSIDERING THE MINIMUM WAGE LAW

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ABSTRACT
If the minimum wage were as good as its advocates claim, this would be the most efficient way of eliminating poverty. The latter is still with us. This is a pernicious law that raises no one's wages, apart from very temporarily, but creates unemployment for unskilled workers. This paper criticizes arguments in favor of such legislation such as that from monopsony. It disparages econometric studies which purport to demonstrate the benefits of this legislation.

KEYWORDS
Minimum wages, monopsony, ceteris paribus, timing

I. INTRODUCTION

If the minimum wage law really raised remuneration for low paid workers, without unemploying any of them, this would mean that by mere legislative enactment, we could bring about prosperity. We could end poverty in one fell swoop. Even the sky would not be the limit.

Alladin's Lamp would have nothing over our legislative bodies. Nor would we be limited to a mere three wishes. The spigot of do-gooding need never be turned off. It would be limited, only, by the time the congress is in session.

There are actually people, adults, who believe in this pie in the sky nonsense. Some of them are even economists. Would you believe that advocates of this idiocy include those with a phd in this subject? Counted among this number are scholars who have won Nobel Prizes in the dismal science. We have recalls for defective automobiles. Why not for some of these worthies?

In section II we consider the basic supply and demand economics of this pernicious legislation. Section III is devoted to a critical analysis of the monopsony argument in favor of wage minima. The goal of section IV is to discourse upon economic illiteracy and of V on econometrics. Section VI is devoted to a consideration of some objections to our thesis. We conclude in section VII with a challenge to supporters of this law.

II. NUTS AND BOLTS OF SUPPLY AND DEMAND

Seemingly, there would be no limit to this enterprise. The national minimum wage is now pegged by law, at $7.25 per hour. (Some states have mandated at higher levels.) Self-styled advocates for the poor have advocated it be raised to an hourly $9, $10, and $12. Senator Bernie Sanders obtain acclaim and fame for wanting to bid this up to $15. But, in principle, there is no ceiling, apart from skinflintiness, limiting us to these paltry sums. If $15 is good, why, then, $150, $1500, $150,000, is even better. Maybe $10 to the 15th power would be more suitable. Why not just cut to the chase, and call for a nice round infinite amount of money per hour?

There is something grievously wrong with the “logic” behind this movement. Wages are based on productivity levels, none of which have changed in the slightest as compensation is boosted by the government.

If someone’s productivity is $5 per hour, any employer paying him $15 will lose $10 per hour. If he does this once too often, he will go bankrupt, and not be able to pay any employee any amount of money at all. Basic introductory economics 101 logic ought to settle this once and for all: when a price floor is placed above equilibrium, supply exceeds demand. This is a surplus, or, unemployment.

III. MONOPSONY

What is the source, then, of this flat earth claim that artificially increasing legal wages will have these beneficial effects? There are several. One of them is the monopsony model. Here, a minimum wage, if placed right dab smack in the middle of the “window” will both raise compensation and, also, miraculously, job slots. More workers will become employed at the mandated higher wage. However, even advocates of this model admit that it only applies to cases in which a single firm employs all, or at least virtually all, of the workers in a given locale. The prime example of this was Hershey, PA, in which the chocolate company employed almost every single inhabitant of this town, and thus had forced wages below competitive levels (here, the minimum wage was not so much raising pay above productivity levels as cancelling out the company's artificial lowering of them). But, even then, if this were true the employees were free to seek greener pastures elsewhere. The fact that they did not, rather, they remained right where they were, puts paid to this theory in the first place.

The only other plausible scenario of one company hiring all the workers in a field would be the case of the highly skilled. For example, suppose a new technique or product is invented. There are only 100 people in the entire world capable of engaging in its manufacture. One firm hires 98 of them. Then and only then would the monopsony model apply, if it were coherent in the first place, which it is not.[1] Under these false assumptions, the monopsony viewpoint would be applicable, theoretically, but would have not practical application. For, if there are only 100 highly skilled persons on the planet able to function in this rarified atmosphere, their marginal revenue product would vastly exceed the $10, $12 or even $15 hourly level commonly discussed as targets for setting a minimum wage. They would be earning great multiples of these amounts.

IV. ECONOMIC ILLITERACY

How else did such an obviously invalid theory ever gain currency? There are two other explanations. One affects primarily the layman, the other, ill-trained professional economist. As for the former, they are filled with the milk of human kindness. They note that without any minimum wage at all, the unskilled would be paid poorly. They say to themselves, "Why, it would be difficult to live a decent life, maybe impossible, with such little compensation. There out to be a law!" Stopping at this point exhausts their level of sophistication on matters pertaining to economics. By gum and by golly let us by all means enact a minimum wage law, support it when it does exist, and continually push upward the level at which it is pegged. Only in that way can we demonstrate our humanitarian credentials.

1 For a devastating critique, see Block and Barnett, 2009; Costea, 2003; DiLorenzo, 1996; Hutt, 1989; McChesney, 1991; Reynolds, 1982; Rothbard, Murray N. (2004 [1962]); Tabarrok, 1998; Vuk, 2006.

Were a similar level of logic applied to other fields, the sun would still revolve around the home planet, which would be entirely flat. "If wishes were horses, beggars would ride." Just because it would be nice to see a boost in the pay packets of the unqualified does not at all mean that a legislative mandate to the effect would not have untoward effects. Before the advent of the minimum wage, the unemployment rate of black teens was similar to that of adult white males. At present, it is quadruple. Yes, quadruple. We do the unskilled no favors by shifting them from a low compensation job to unemployment at higher wage levels. Pay of $3 per hour is better than zero.[2]

V. ECONOMETRICS

What has lead the sophisticated economist down this garden path? In a word, econometrics. Statisticians and mathematically oriented economists, too, are blinded by the do-goodism gene.[3] They have run regressions (Card and Krueger, 1994) which upon occasion fail to find any statistically significant relation between a rise in the minimum wage law and subsequent unemployment of the unskilled traditional economic theory would indicate. Instead of rejecting these ill-begotten econometric results, they jettison apodictic praxeological insights.[4] They do not at all appreciate that there are "lies, damned lies, and statistics."

Wherein lies their error? They rely all too heavily on the view that they have succeeded in adhering to the ceteris paribus conditions employed in the economic theory which sees unskilled unemployment as the necessary result of wage minima. Minimum wage laws, or the increase in their levels, only without doubt lead to unemployment of the unskilled if nothing else changes.[5] To be sure, econometricians strive mightily to ensure their models take other changes into account. But this is a Herculian task. When their statistical results diverge from

2 We abstract from the institutional fact that unemployment insurance will be paid to the latter, not the former.

3 They are often accused of having cash registers for brains, and dollar signs on their eyeballs. Would that this were but true.

4 See on this Block, 1973, 1980, 1999; Batemarco, 1985; Engel, 2018; Fox, 1992; Hoppe, 1989, 1991, 1992, 1995; Hulsmann, 1999; Mises, 1969, 1998; Polleit, 2008, 2011; Rizzo, 1979; Rothbard, 1951, 1957, 1960, 1971, 1973, 1976, 1997a, 1997b, 1997c, 1997d, 1993, 2011; Selgin, 1988; Wiśniewski, 2014.

5 Posit there is an evil billionaire, intend upon proving erroneous economic theory. Every time the minimum wage level rises, he hires more unqualified workers, suppressing their unemployment rate. Economic theory would still be true, but the econometric results would be skewed.

the insights of praxeological law, they are all too ready to assume they have succeeded in maintaining ceteris paribus conditions (Card and Krueger, 1994).[6]

The other flaw in their analysis is timing. The economy cannot instantaneously adjust to changes in the law. When the minimum wage was elevated from $.40 to $.70, there were virtually no automatic elevators in service. They were available, to be sure, but when competing with workers earning $.40, they were non-competitive. At $.70, it became an entirely different story. However, this alteration could not be made all in one fell swoop. It took several years. If an econometric study had been conducted, on the day after this change, on the week after, on the month after, it would have found very little job loss on the part of elevator operators. After six months and a year, still, a statistically significant change might not have registered. After several years, yes of course. Virtually all of these vertical staircases would have been automated. But, by then, ceteris paribus conditions would have become harder and harder to corral.

VI. CRITICISMS[7]

A criticism of our thesis is that "the labor market is not equivalent to any market for goods and services: from a policy standpoint, there may be 'dignity' arguments to be considered." One response is dignity, schmignity. That is, dignity is entirely irrelevant to economic analysis. When the proctologist asks the patient to bend over for an exploratory probe the issue of "dignity" simply does not arise, even though it is difficult to think of a more undignified interaction for both parties, particularly the latter. Both parties to this interaction are intent upon curing disease, and "dignity" at best is a distraction. At worst it possibly leads to sickness and death. In like manner, in the present case, "dignity" must simply be tossed out of the window; here, too, we are intent upon curing a malignancy, and should not be distracted by irrelevancies. To be sure, with an economic one sickness, unemployment, not a physical one, as in the medical case. But, both are important. In neither case should we allow ourselves to be sidetracked from the point at hand.

6 For critiques of them see: Block, 2001; Burkhauser, Couch and Wittenburg, 1996; Burkhauser, and Finnegan, 1989, 1993; Gallaway and Adie, 1995; Hamermesh and Welchm 1995; Neumark and Wascher, 2000.

7 Both of these were offered by a referee of this journal; I am grateful to these suggestions, and delighted to reply to them.

Let us seize the bull by the horns of this dilemma. If “dignity” is indeed important, it is by no means confined to labor markets. Consider purchases and sales for a product that at least superficially can have no relationship to “dignity”: apples. Suppose we place a floor under the price of this fruit, above the equilibrium point. We can then deduce, as in the minimum wage case, that a surplus of this product will ensue. But what about the “dignity” of the growers, who can no longer sell all the apples they bring to market. If “dignity” is in play in situations of this sort, then it transcends the labor market and applies to all commercial interactions. If we are advised to consider “dignity” in the one case, we must generalize to all, since there are no relevant differences. Human beings are involved in every market, without exception. There is nothing sacrosanct about the labor market. It, too, is entirely dependent upon economic law.

A second denigration of the present paper is that the labor market is different than all others. This is put in the following terms: “... the actual structure of the labor market should also be considered, since generally there is no doubt an asymmetry of positions between the employer and the employee, whereas minimum wage law may serve as a correction mechanism for such asymmetry (in substitution or in parallel with trade unions).”

But asymmetries, too, take place in all markets, not just the one earmarked by employer and employee. Surely, the borrower knows more about his business than the lender. Ditto for the landlord than the tenant. The same applies to the seller and the buyer of a myriad of goods and services. Thus, there is no reason to single out any one market from any other.

The referee, here, is relying upon the fallacious doctrine of asymmetric information as a “market failure.” This implies that government action, such as a minimum wage law, can correct supposed failures of markets. But as DiLorenzo (2011) trenchantly points out, the government, too, lacks full information, and thus can worsen market results, not improve them. To wit, there is simply no reason to assume that market wages are too low, due to informational asymmetries, and that this sort of law can improve things. If, indeed, wages were below equilibrium, demand for labor would exceed supply, and the price of labor would be driven up.

VII. CONCLUSION

If the minimum wage law is such a good bet for the poor, why do not its advocates urge it on third world countries? The social justice warriors are champions of foreign aid[8] as a way to help the downtrodden. But nary is ever a word heard in favor of the governments of these nations adopting a minimum wage. If they implemented this law at US standards[9] virtually their entire labor force would be rendered unemployable. We are not talking U.S. depression levels in the 20% neighborhood, either. More like 90% of their labor forces would go jobless. If the advocates of this malicious legislation were serious about their support[10] for it, and also for the internationally downtrodden, they would call for precisely this policy in those geographical areas. They never have done any such thing, which seriously calls into question their own backing of it. Why does not Bernie Sanders advocate a tripling of wages in Venezuela? Perhaps even he is not that cruel.

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8 Criticisms of this pernicious policy would take us too far afield. We content ourselves with mention but one scholar, Peter Bauer.

9 Anywhere from $7.25 to $15 per hour.

10 Bernie Sanders, are you listening?

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