# Minimum Wage, Maximum Folly

BY WALTER E. WILLIAMS

The big Associated Press story for last October 11 was that "More than 650 economists, including five winners of the Nobel Prize for economics, called Wednesday for an increase in the minimum wage, saying the value of the last increase, in 1997, has been 'fully eroded.' " Among these economists were Nobel laureates such as Kenneth Arrow of Stanford University, Lawrence Klein of the University of Pennsylvania, Robert Solow of the Massachusetts Institute of Technology, Joseph Stiglitz of Columbia University, and Clive Granger of the University of California, San Diego, who said that the real value of today's federal minimum wage is less than it has been at any time since 1951.

Their statement went on to say, "We believe that a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed." Moreover they asserted, "The minimum wage is also an important tool in fighting poverty." These and other assertions amount to what might be seen as examples of economic malpractice.

While there is a debate over the magnitude of the effects, the weight of research by academic scholars points to the conclusion that unemployment for some population groups is directly related to legal minimum wages. The unemployment effects of the minimum-wage law are felt disproportionately by nonwhites. A 1976 survey by the American Economic Association found that 90 percent of its members agreed that increasing the minimum wage raises unemployment among young and unskilled workers. It was followed by another survey, in 1990, which found that 80 percent of economists agreed with the statement that increases in the minimum wage cause unemployment among the youth and low-skilled. Furthermore, whenever one wants to find a broad consensus in almost any science, one should investigate what is said in its introductory and intermediate college textbooks. By this standard, in economics there is broad agreement that the minimum wage causes unemployment among low-skilled workers.

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The reasoning for this unemployment effect is quite simple. If Congress got its way, the current minimum wage is $5.85 an hour. The hourly wage is not the only cost of hiring a worker. There are also legally mandated fringe benefits such as employer payments for Social Security, Medicare, unemployment compensation, and worker-compensation programs at federal and state levels. These mandated benefits may run as high as 30 percent of the hourly wage. This makes the minimum hourly cost borne by the employer close to $8 an hour. Put oneself in the place of an employer and ask: Does it make sense for me to hire a worker who is so unfortunate as to have skills enabling him to produce $4 worth of value per hour when he is going to cost me $8 an hour? Most employers would see doing so a losing economic proposition and not hire such a worker. Thus the minimum wage discriminates against the employment of the least-skilled workers. In our society, the least-skilled workers tend to be teenagers, particularly black teenagers.

I am embarrassed that so many members of my profession are willing to argue that the price of something does not affect the quantity taken of it. To use the jargon of our profession, the implication of their argument

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is that the demand curve for low-skilled labor has zero elasticity. I propose a test. Ask one of the 650 economists for a yes or no answer to the question of whether the demand curve for low-skilled labor has zero elasticity, or for that matter whether any good or service has a zero-elastic demand curve. I am hoping he will say no. But if no is the answer, ask how it can be said that increases in the minimum wage have no effect. He might respond that modest increases in the minimum wage would produce little or no unemployment effect. In other words, the demand curve has zero elasticity for relatively small increases in the minimum wage. Then ask whether he knows that demand curves are more elastic in the long run. That is, while employers might not respond immediately to higher wages, in the long run they will find substitutes such as automation, change production techniques, or relocate to a lower-wage country.

The most ludicrous part of the statement by the 650 economists is "The minimum wage is also an important tool in fighting poverty." This assertion does not even pass the smell test. There are miserably poor people in the Sudan, Bangladesh, Ethiopia, and many other places around the globe. Would any of these economists propose that the solution to world poverty is a high-enough minimum wage? Whether it is Ethiopia or the United States, poverty is not so much a result of being underpaid as being underproductive. Congress can legislate that a worker be paid a certain amount. Congress cannot legislate that a worker be more productive and cannot legislate that a particular employer hire a particular worker.

There is another effect of legally mandated wages that often goes unappreciated. It can be seen in a couple of statements supporting the minimum wage. For example: "There is no job reservation left in the building industry, and in the circumstances I support the rate [minimum wage] for the job as the second best way of protecting our white artisans." "A year later," wrote G.M.E. Leistner and W.J. Breytenbach in *The Black Worker of South Africa*, "[the same person just quoted] stated that he would be prepared to allow black artisans into the industry provided that minimum wages were raised from Rand 1,40 to at least Rand 2,00 per hour and if the rate-for-the-job [equal pay for equal work] was strictly enforced."

## Preferred Tool of Racists

Both statements were made by the secretary of South Africa's avowedly racist Building Workers' Union, Gert Beetge. Why would South Africa's racist unions support minimum wages for blacks? The answer is easy. Mandated wages are one of the most effective means of pricing one's competition out of the market, and historically, mandated wages have been one of the most effective tools in the arsenal of racists everywhere. I am not arguing that those 650 fellow economists of mine have the same intentions as a racist South African union, but the intentions behind a policy may have little or nothing to do with the effects of that policy.

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My hypothesis for this otherwise inexplicable behavior is not that my fellow economists are untrained in the effects of minimum wages. My hypothesis is that they know that most workers earn more than the minimum wage. They also know that even the worker earning the minimum wage does not earn it for long. Therefore, increases in the minimum wage will negatively affect only a small portion of the workforce. Moreover, they know that not having a job does not mean starvation, at least not in America. Welfare is a substitute for not being in the job market. Thus supporting the minimum wage might be their attempt to appear compassionate. Seemingly uncompassionate people like me do not make it onto the brie, tofu, and champagne circuit.