Thomas Sowell - Minimum Wage Exploitation

Minimum wage laws prevent transmission of knowledge of labor available at costs which would induce its employment. By mistaking the cost of such labor, it causes some of the labor to be unemployed, even though perfectly willing to work for wages which others are perfectly willing to pay. The term ***minimum wage*** law defines the process by its hoped-for results, but the law itself does not guarantee that any wage will be paid because employment remains a voluntary transaction. All that the law does is reduce the set of options available to both transactors. Once the law is defined by its characteristics as a process, rather than by its hoped-for results, it is hardly surprising that there are fewer transactions, that is, more unemployment with reduced options. What is perhaps more surprising is the persistence in scope of the belief that people can be made better off by reducing their options. In the case of the so-called minimum wage law, the empirical evidence has been growing that it not only increases unemployment, but that it does so among the most disadvantaged workers. This undermines some of the key assumptions of the price-fixing approach.

Some who might not support the general proposition that people are made better off by reducing their options, may nevertheless believe that one party to a transaction or negotiation can be made better off by eliminating his worst options, that is, low wages for a worker, high rents for a tenant, or sales at a loss for a business firm. But almost by definition these are not their worst options. They could have no transactions at all, or fewer transactions, that is, be unemployed, unhoused, or unable to sell.

Third parties may be morally uplifted by saying, for example, that they would rather see people unemployed than working at exploitation wages, but the mere fact that people are voluntarily transacting as workers, tenants, or businessmen, reveals their very own different preferences.

Unless price-fixing laws are to be judged as moral consumer goods for observers, the revealed preference of the transactor is empirically decisive. The fact that the worst off workers tend to be the most adversely affected by minimum wage laws suggests that what is typically involved is not unconscionable exploitation, but the payment of wages commensurate with their desirability as employees.

If the lowest paid workers were simply the most under paid workers relative to their productivity, there would be more than the usual profit to be made by employing them, and the minimum wage law could simply transfer that extra profit to the workers without costing them their jobs.

The exploitation explanation of low wages tends to emphasize the intentional morality of the employer, unconscionable, rather than the systemic effects of competition. Nothing is more common in economics than the attraction of new competitors whenever and wherever there's a profit above the ordinary. If hiring low paid workers presented such an opportunity, that is, if exploitation had some substantive economic meaning, the competition attracted would bid their wages up, and keep them more fully employed than others. In fact, however, their marginal desirability to employers is indicated by their precarious and intermittent employment patterns, and by their generally higher rates of unemployment. In short, for workers, as for business, knowledge transmitted by low prices, wages is generally accurate knowledge, and forbidding its transmission costs both the economy and the intended beneficiary of such price fixing.

Were the facts themselves to be changed by improving the job qualifications of low paid workers, for example, the effects of that would be quite different from merely forbidding or distorting the transmission of knowledge of existing facts. In a purely informational sense, the employer still knows low productivity or high risk categories of workers, but that only ensures that the lack of effective knowledge transmission through prices, wages will lead to less employment of them.

There is no inherent reason why low skill or high risk employees are any less employable than high skill, low risk employees. Someone who is five times as valuable to an employer is no more or less employable than someone who is one fifth as valuable when the pay differences reflect their differences in benefits to the employer. This is more than a theoretical point.

Historically, lower skill levels did not prevent black males from having labor force participation rates higher than that of white males for every U.S. census from 1890 through 1930. Since then, the general growth of wage-fixing arrangements: minimum wage laws, labor unions, civil service pay scales, etc. has reversed that, and made more and more blacks unemployable, despite their rising levels of education and skill, absolutely, and relative to whites. In short, no one is employable or unemployable absolutely, but only relative to a given pay scale.

Increasingly, blacks have been priced out of the market. This is particularly apparent among the least experienced blacks, that is black teenagers, who have astronomical unemployment rates.

The alternative explanation of high black teenage unemployment by racism collides with two very hard facts: One, black teenage unemployment in the 1940s and early 1950s was only a fraction of what it was in the 1960s and 1970s, and was no different than white teenage unemployment during the earlier period, despite the obvious fact that there was certainly no less racism in the earlier period. And two, unemployment rates among blacks in their mid-twenties dropped sharply to a fraction of what it was in their teens, even though the workers have not changed color as they aged, but only become more experienced. The intentional explanation – racism, may be more moralistically satisfying, but the systemic explanation fits the facts. A decade of rapid inflation after the Federal minimum wage law of 1938 virtually repealed the law as an economic factor by the late 1940s and early 1950s before a series of amendments escalated the original minimum.

During the late 1940s and early 1950s when inflation and the exemption of many occupations from wage control made the minimum wage law relatively ineffective, black teenage employment was less than a third of what it was in the later period, after the minimum was raised to keep pace with inflation, and the coverage of minimum wage laws extended to virtually the entire economy.

To give some idea of the magnitude of this effect, black teenage unemployment in the recession year of 1949 was lower than it was to be in any of the most prosperous years of the 1960s or the 1970s. Moreover, even in countries with all white labor forces, teenage unemployment has been similarly vulnerable to minimum wage laws. This is in keeping with the lesser work experience of teenagers, and therefore, the greater distortion of knowledge involved when minimum wage laws misstate their value to the employer. Statistical data happened to be kept by age and race, but the more general point is that the negative effect of forcible distortion of knowledge hurts most for whom the distortion is greatest.

While the government is the central repository of force, it is by no means the sole repository of force. Labor unions often use force, threats, and harassment during strikes to stop or reduce the flow of customers or employees to the workplace, and or the shipment of goods in or out a struck business. Many major employers do not even attempt to operate during a strike because of the high prospect of violence, and the low prospect of effective law enforcement. This private use of force, to prevent the effective transmission of prices reflecting economic options, has very similar affects to governmental force in the form of minimum wage laws.

The systemic effect of pricing the most disadvantaged workers out of a job is sometimes compounded by intentional effects of barring various minorities from unionized occupations, either explicitly or tacitly. Virtually every immigrant minority was the target of such union exclusions at one time or other during the 19^{th} century, and white only clauses existed in many union contracts or constitutions in both the 19^{th} and 20^{th} centuries.

However, such intentional discrimination is not necessary in order for unions to have adverse systemic effects on the employment opportunities for disadvantaged groups, similar to those of minimum wage laws, which usually have no intentional discrimination at all. Whether by intentional or systemic effect, labor unions have historically had a devastating impact on the employment opportunities of blacks. Some occupations once dominated by blacks – railroad and construction occupations in the south, for example, became white only after unionization.

The history of blacks in skilled occupations in the south and north graphically illustrates the difference between intentional and systemic variables. From an intentional point of view, the south would seem to be the most diverse to the employment of blacks in skilled occupations, but in reality, black remained in such positions longer in the south than in the north because the systemic effects of labor unions and liberal or progressive wage fixing legislation came much later.