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Minimum Wage

On the one hand, some people say:

- America has too many poor people
- America has too many people working for wages that are too low to raise a family
- We can fix all this simply and for a long time by raising the minimum wage
- Raising the minimum wage does not lead to any of the problems other people say it does

On the other hand, some people say that raising the minimum wage:

- Is a temporary fix, for only some people, at best
- Results in higher unemployment
- Results in owners substituting machines for workers here
- Results in employers sending work overseas
- Requires owners to raise prices, so people in general buy less, so the economy shrinks overall
- Fuels inflation
- Does not lead people to get the training they need for good jobs
- Does not lead to more good jobs
- Keeps bad jobs and keeps people reliant on bad jobs
- Eventually results in things going back to the way they were

I agree with the second opinion mostly. There are some exceptions, and there are some things we can do to stave off the bad results if we raise the minimum wage. But, in the end, the bad results of raising the minimum wage are unavoidable, and we end up where we began but likely worse off.

Reality (truth) is not the enemy of poor people. Truth (reality) is the friend of poor people in the long run. Reality is the only friend of poor people in the long run. Anybody who offers a plan not based on reality is the enemy of poor people no matter how good the intentions and no matter if poor people are in the same race or gender or poor people are in a stigmatized race or gender. Anybody who wants to help poor people better find out what reality really is, and what really can be done on that basis.

So, what do we do about all the unemployed people and people with bad jobs? To figure it out, we first have to learn about wages, employment, unemployment, bad jobs, and pensions; and those topics are the subjects of other essays.

Before we could fix low wages, we would have to accept that we have issues with unemployment and low wages (bad jobs), with people who don't qualify for a good job in modern capitalism either through lack of education or through being not smart enough; and with benefits packages for retirement and medical care. Then we would have to something rational and realistic about the problems. We will do none of this. Instead we grab quick fixes that are as painless to us personally as possible. At bottom, the problem is political and it rests on the shoulders of each average American. If we will not do what needs to be done, and we will not force our politicians to do what needs to be done, then we have to face cycles of low wages and poverty, raising the minimum wage, problems, adjustment, and the return of low wages and poverty. I am sorry we will not face the problems and deal with them, that we have an army of badly employed people, we to try quick fixes like raising the minimum wage, and so, in the long run, we hurt people even more. But I don't know what else to do except write about it.

Even really smart well-meaning good people can get confused about this issue and so can hurt people they would like to help. In 2014 and 2015, before Jon Stewart left "The Daily Show", he often showed the plight of people with low wages and he called for raising the minimum wage. I could tell that he had not thought through the issue. If he doesn't, can we expect the average American to think it through? I hope so.

It helps to know some facts about capitalism, and about the state and capitalism:

-About 5% to 8% unemployment is endemic in capitalism, even among people with skills and a good attitude, and even in America.

-About 25% of the American workforce has jobs that pay low wages and have few or no benefits. These jobs are not enough to raise a family, even usually with two of them.

-The increase in technology in America does not mean that it is easier to employ more people. On the whole, among people who are smart enough, increased technology probably does lead to more good jobs in the long run, but that is not clear.

-Many people, even in America, do not have the temperament to hold a good job. They lack the right temperament either from native character or because they were not raised well. They are not always bad people, but at least some of them are bad people. They just don't fit.

-Many people do not have the proper education for the good jobs that are available now, and cannot get the education.

-Many people are not smart enough (are too stupid) for a good job. In modern capitalism, good jobs rely more-and-more on technology.

-People that do not have the right temperament, do not have education, or are too stupid, wind up in bad jobs or with no job at all. So do some people who have good character, are smart enough, and did get a basic education.

-People who are not smart enough, have a bad attitude, have not gotten the needed training, and will not get the needed training, should not expect a good job. They should expect only a bad job. They should not expect the state to help them above everybody else.

-Raising the minimum wage will not change people's temperaments, education, or intelligence, and so give them jobs good enough to live on.

-Raising the minimum wage will not create good jobs that we can then educate people for.

-You should not expect to get a job good enough to raise a family on comfortably just because you are a good person, are the right race, are the right gender, belong to a particular political party, belong to a particular religion, voted from a particular candidate, are hip, cool, dance well, look good, played sports, or were a cheerleader.

-The state does not owe anybody a job or a good job (enough to raise a family).

The remainder of this essay is mostly about why raising the minimum wage does not solve the problem and creates other problems. I do not use technical ideas from economics. I use only simple examples from everyday life.

It is true that employers make money from their employees. They also pay employees a good share of the money that they make from the employees. If an employer did not make at least as much money from an employee as the employer gave in salary (including benefits), the employer could not keep the employee because the employer would lose money and go bankrupt. If the employer did go bankrupt, that employee would not have a job, and no other employees would have a job either.

It is true that sometimes employers make more money from employees than they pay employees but this does not happen as often as employees think and it is not as much as employees think. I cannot go into details. We could not cure bad jobs by forcing employers to pay more because we think all of them pay too little. Even when employers do pay employees less than they make, it happens only sometimes, and it is not general, that is, it happens with some employees but not others. It does not happen as often with low-wage employees as we might think. If all employers were forced to raise wages on all employees because some employers made too much from some employees (did not pay some employees enough) then likely many employees would be overpaid, and many employers would go bankrupt. It is hard to raise wages only on the employees who are being underpaid and it causes more problems to raise wages on everybody. The best way to deal with this situation is to have a good labor

market system, good labor unions, and good knowledge about how the economy works – three things America does not have.

Suppose you own an ice cream shop, and sell both chocolate and vanilla milkshakes. You sell the same number of each. The price is the same for both, \$2 per shake. You make a small profit on both, say 40 cents on vanilla and 30 cents on chocolate. You raise the price of chocolate to \$3. What happens? People do not keep buying equal quantities of both. Most people who might have bought chocolate switch to vanilla. Some people keep buying chocolate but don't like you anymore. Some people don't buy any shakes at all from you anymore but buy another ice cream treat. A lot of people go to another shop. So, overall, your sales go down and you lose money. Before you go bankrupt, you return the price to \$2 per chocolate shake. Employing workers is no different.

Amazon sells albums of music in CD format for about \$15 apiece and sells single songs in MP3 format (or similar electronic format) for about \$1 apiece. People prefer individual electronic songs because albums don't often have twelve good songs on them, and many people convert CDs to MP3 format anyway. Amazon decides to raise the price of songs to \$3 apiece. People stop buying songs in electronic format and switch to CDs. There might be 4 good songs on an album and it is not that hard to convert a piece of plastic to all-electronic. When the price of something goes up, we switch to something else. When the price of labor goes up, we switch to something else. When the price of one kind of labor goes up, we switch to another kind. When the price of one kind of labor goes up, we switch to another kind in combination with technology.

Suppose you run a small family restaurant and employ three "wait people" at any time. For a long time now, you have known that you could install terminals at the tables with pictures of food, people could select their own food, and you would not need any wait people at all. To run the shop that way would cost less than the wait people, and cause fewer problems too. You have not done this because you feel for the wait people, and because the switch has some unavoidable start-up costs. Then the state says you have to raise the salary of your wait people from \$10 per hour to \$20 per hour. You let go all of the wait people and put in the automated order machines.

This scenario with the terminals and wait people is not a fantasy. It is a real possibility right now (2015) in restaurants in America. Look at the registers at most fast food restaurants. There are no numbers for money. There are only pictures of food. When you order something, the "cashier" pushes a food icon. The system finds a price in a computer and charges you that price. Unless you pay with cash, you give the cashier a debit card or credit card, he-she swipes it, and quickly enough you get your food. It does not take much thought to see that the cashier is not needed except for people who are not smart. For them, only one wait person is needed per shift. Most people who are smart enough to use a debit card are smart enough to order their own food. Any restaurant easily could lose all customers who had only cash and who were not smart enough to punch pictures, and still make a profit. In fact, any restaurant that let those customers go elsewhere likely would make more profit, because it would need only the absolute minimum number of wait persons and it would avoid all the problems that come with cash and with unintelligent customers.

Suppose the state raises the minimum wage and the employers cannot get rid of employees and cannot replace them easily with machines. The cost of the goods that they make (food) or the service that they give (newspaper deliver, grocery bagging) really does go up.

When the cost of the goods and services that they make goes up, people buy less. More money gets tied up in those goods and services than before, so less money is available to spend elsewhere. In that way, the economy shrinks.

Of course, formerly low-paid employees have more to spend now, so, in that way, the economy expands a little bit. But the expansion in this way does not make up for the contraction. So, the economy does shrink overall. Overall, people get laid off in other jobs in other fields, as, for example, making songs or making computers.

When the price of goods and services goes up, the price of other goods and services that the first goods and services enter into goes up too. When the price of steel goes up, the price of cars goes up. When salaries and prices go up at fast food restaurants, people who buy fast food for lunch want a salary rise to cover the increased cost of the food that they buy. The wages of bag people goes up, so the price of food at the grocery store goes up, so shoppers demand an increase in their salaries to keep up with rising food costs. The wages of electronic assembly people go up, the cost of cell phones goes up, so people who use cell phones (everybody now) demand an increase in their wages to cover the rise in the price of cell phones. The wages of clerks in the offices of cell phone providers go up, so the cost of plans goes up, so the people who use cell phones demand increases in their salaries to cover the higher cost of plans.

Continuing this trend, not far in the future, all prices and all wages have gone up except that the wages of formerly-low paid workers are stuck at the level they got raised to. But now the level of those wages they got raised to is not high anymore. In fact, compared to other wages and to the new cost of goods, the wages of formerly low paid workers are low again. And so the cycle begins again.

Raising the minimum wage makes inflation. America already has a lot of trouble with inflation, primarily due to deficit spending. Putting the two causes of inflation together only makes the combination worse. We cannot say: "America already has big inflation due to deficit spending. The inflation caused by the minimum wage is not much in comparison. The benefits of raising the minimum wage are great. The benefits outweigh the harm when put in the context of already-existing inflation." A big wrong does not turn a smaller wrong (but not necessarily small wrong) into a right. We need to stop all sources of inflation. Raising the minimum wage would make it much harder to do stop inflation. In fact, raising the minimum wage would aggravate the problems that allow politicians to adopt deficit spending such as benefits programs, and so would fuel inflation doubly.

Free market economies have a natural balance like a forest, a swamp, or snow on a mountain. The balance is not nearly as beautiful and beneficial as apologists for capitalism say it is. But it is there, it works, it is beautiful, we are better off working with it than against it, and we lose its benefits only at our own great peril. If we intrude, we make the economy sick, as when we cut the forest, change rain patterns, dump trash in the sea, pollute the air, or build houses on the sides of mountains. It doesn't take much. As with a forest, the economy tries to reassert a natural balance after we stick our programs into it and screw it up. As with a forest, the economy does not always succeed, and the end usually is worse than when we started. Sometimes a clever economist can see how to tweak the economy for the short run, as a clever forester can use methods to help the forest stay healthy. But the minimum wage is far too big and far too crude to be used that way. It is like burning the forest helter-skelter instead of allowing controlled natural burns, like stopping all fire instead of allowing controlled natural burns, like letting loose "killer" bees, or spraying everywhere to kill a few bugs. We are better off figuring out what the bugs are, finding natural enemies that can control the bugs if not eliminate them, figuring out what we have to live with, and figuring out how to do that.

What do we do? We make sure as many people as could be trained for good jobs are trained for good jobs. We have to train both skills and character. We try to make sure there are good jobs for them. We accept that some people cannot, or will not, be trained for good jobs. We accept there is at least 5% unemployment even if everyone is trained and has a good attitude. We accept that, right now, at least 25% of the jobs are bad jobs, and this ratio likely is rising. We find out why. We find out what can be done to turn SOME bad jobs into good jobs. We accept that not all bad jobs can be turned into good jobs. Then we know what we are really facing. Then we deal with it. We will not do any of this.