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The Irony of the Minimum Wage Law: Limiting Choices Versus Expanding Choices

ABSTRACT: Persistently high unemployment among specific sub-groups, namely teenagers, African-Americans and workers with low skills has been a serious problem in the United States. In this paper, we trace a large portion of that problem to the existence of minimum wage laws that have been in force nation-wide since 1938. These laws remain popular despite their adverse effects because of a lack of economic understanding among the general public. In this paper, we aim to make clear even to those without advanced economic training why the minimum wage law is not a viable solution to the problems of those its proponents purport to help, but rather a cause of worse problems for them. Our method is to use elementary economic logic to show that the minimum wage must harm many of those it is claimed to help by costing them their jobs and to review the data to show that it always has harmed them. Our conclusion is that minimum wages have not achieved their putative goal, but have served the ulterior motives of limiting the competition faced by labor unions. Our recommendation is to repeal minimum wage laws, and failing that, to at least lower their rates, and in their place to help low-skill workers by reducing the barriers to their receiving enough education to raise their marginal revenue product so as to permit them to earn higher wages in a way that does not remove their employment opportunities.

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I. INTRODUCTION

The minimum wage law is a counter-productive policy. It is a law that is supposedly intended to help those whose skills do not allow them to make as much as they would like to. It is thought, by the economically illiterate, to be a safety net for the unskilled. However, this safety net creates unintended consequences for those whom it aims to help. While the law may artificially and initially raise wages for some, it also leads to a loss of jobs for others; some suggest that labor unions support minimum wage laws out of self-interest rather than concern for the lowest paid workers (Sherk, 2007).

Minimum wage laws can be held responsible for the excessively high unemployment rates in the black community as compared to the white community. As of January 2013, the white unemployment rate was seven percent compared to 13.8 percent for black workers (Bureau of Labor Statistics, 2013). In addition to killing jobs for the black population, it also has disastrous consequences for the teenage population (16-19 years old), whose unemployment rate, as of January 2013, was 24.3 percent (Bureau of Labor Statistics, 2013). These high unemployment rates are correlated with the minimum wage law, which does not allow employers to hire workers based on their actual productivity. Instead, firms are forced to pay under-skilled workers that they might hire more than they can produce; since this would hurt companies that would hire them, they will not do so. This precludes these low skilled workers from obtaining on the job experience.

If we truly desire full employment of low-skilled workers, the minimum wage law is not the way to achieve it. This pernicious legislation destroys jobs by pricing the lowest skilled workers out of the labor force, while forcing employers to pay artificially inflated wages—costing them money and low skilled workers much-needed experience.

In section II of this paper we offer a brief history of this law. The burden of section III is to offer reasons to abolish the minimum wage. In section IV we discuss some solutions to this vexing problem. We conclude in section V.

II. A BRIEF HISTORY

The minimum wage did not start in the United States; rather, it originated in New Zealand and Australia in 1896 (Nordlund, 1997, p. 2). Following its enactment in New Zealand and Australia, the minimum wage was endorsed in Great Britain in 1909 and then in the state of Massachusetts in 1912. According to Rudolf Broda, “[a]s in Australia (1896) and in Great Britain (1909) minimum wage legislation in the United States (1912) sprang from anti-sweating agitation.”⁷⁵ Sweating, as defined by the thoughtful critic M.B. Hammond is, “the payment by an employer to his work people of a wage which is insufficient to purchase for them the necessities of life.” In 1912, Massachusetts became the first state to pass a minimum wage law. The law contained six components, of which the most notable were, “(1) a commission to administer the program; (2) tripartite wage boards or conferences to recommend appropriate wage rates to the commission . . . (6) protection of only women and children (Nordlund, 1997, p. 11).” The law in Massachusetts was not strictly enforced. Officials preferred moral suasion to outright force to obtain compliance with the law. They published “white lists” which named the companies that observed the new law (Nordlund, 1997, p. 12).

The Massachusetts law set in motion the wheels of change for the United States, a country whose labor relations had been dominated by laissez-faire economics since its founding, gradually moving it toward centralised regulation. By 1913 eight states had enacted minimum wage laws, and by 1935 one-third of the states had done so (Nordlund, 1997, pp. 13, 26).

The minimum wage law picked up popularity at a time it would do the most harm due to declining market wage rates, especially between 1929 and 1933 (Nordlund, 1997, p. 5). Average weekly earnings for all manufacturing were \$25.03 in 1929. In 1933, they were \$16.73—a 33.2 percent decline. While manufacturing wages decreased, the agriculture sector also saw significant drops in payrolls. Total farm wages in 1929 were 1.284 billion. By 1933, they had fallen to \$512 million—a decrease of over 60 percent. Lastly, from 1928 to 1933, average weekly payroll fell from about 14.4 million to about 4.8 million—a reduction of about 67 percent (Nordlund, 1997, p. 6).

Between 1912, when Massachusetts adopted the minimum wage law, and the *Fair Labor Standards Act* in 1938, there were numerous court cases that dealt with the constitutionality of the minimum wage law. One of the most notable occurred in 1923—*Children’s Hospital v. Adkins* (Nordlund, 1997, p. 21). The case rested

⁷⁵ Rose (2009) also draws the connection between sweated labor and the minimum wage (p. 960).

on infringement of the fourteenth amendment of the United States Constitution which stipulates that no person shall “be deprived of life, liberty, or property without due process of law.” Ms. Willie A. Lyons, the plaintiff, argued that the District of Columbia’s new minimum wage law caused her dismissal as her work was not productive enough to match the new wage set in place (Nordlund, 1997, p. 21). In the end, Justice Sutherland wrote the decision that ruled in her favor. However, on March 29, 1937, the *Adkins* case was overturned in *West Coast Hotel Co. v. Parrish*, and “[the court] in categorical terms declared minimum wage legislation compatible with the provisions of the Federal Constitution (Nordlund, 1997, p. 26).”

The overturning of the *Adkins* case, along with other political factors paved the way for the *Fair Labor Standards Act*. In 1936, John Maynard Keynes published his groundbreaking work: *General Theory of Employment, Interest, and Money*. The book gave “scientific” sanction to government interventions that had long been considered harmful. While mostly dealing with monetary and fiscal policy, it was in tune with the spirit of the age in bringing other types of intervention within the realm of possibility. Indeed, Keynes (1936) claims, “that it is more expedient to aim at a rigid money-wage policy than at a flexible policy,” (p. 266) a statement with clear implications on the desirability of the minimum wage. In 1938, the *FLSA* (*Fair Labor Standards Act*) was passed by a 291 to 89 vote in the House, and the Senate passed the conference report without a recorded vote on June 13, 1938 (Nordlund, 1997, p. 51). Some of the key components of bill included: (1) creating a Wage and Hour Division in the Department of Labor; (2) mandating a \$.25 minimum wage on October 25, 1938; a minimum wage not less than \$.30 by October 24 1939, and a \$.40 per hour minimum wage by October 24, 1945 and thereafter; and (3) mandating maximum work hours at forty-four per week on October 24, 1938, forty-two hours per week on October 24, 1939, and forty hours per week on October 24, 1940. The minimum wage law had officially taken effect in the United States, and has changed business ever since.

III. REASONS TO ABOLISH THE MINIMUM WAGE

Before we discuss the harmful effects of the minimum wage, some basic economic principles need to be explained. A worker’s wage is generally determined by his discounted marginal revenue productivity, herein MRP (Block and Blundell, 2006; Block, 1990). MRP measures how productive a worker is at his task (Investopedia, no date). To better conceptualize MRP, let us use basketball player LeBron James as an example. During the 2012-2013 National Basketball Association season, his

MRP in terms of points per game was 26.8 (National Basketball Association, no date). Some games he scored more than 27 points, and others he scored less than 27 points, but on average his value to his team was 26.8 points per game. One must convert the number of points LeBron scores into how much additional revenue he generates for the team through additional attendance, advertising and cable contracts, to estimate⁷⁶ his MRP.⁷⁷ The higher a worker's MRP, the more he or she will be paid, the lower a worker's MRP, the less he will be paid. Wages can either be greater than MRP, lower than MRP, or in equilibrium, equal to MRP. In an effective working environment, workers' wages tend to equal their MRP. During the 2012-2013 season the Miami Heat paid LeBron James \$17,545,000 because that, presumably, was the upper bound of the value they placed on his work (ESPN 2013). His MRP earned him the aforementioned salary due to his natural talent, hard work, human capital, physical capital, etc.—all factors that go into any laborer's compensation.

The minimum wage law is ironic in that it kills jobs for those whom it claims to help. Low-skilled workers, especially young people, minorities, and untrained workers are all examples of people who seemingly benefit from the rise in minimum wage but at a closer look end up being hurt by the law. Take the current minimum wage of \$7.25 per hour. Any laborer whose MRP is above or equal to the latter figure will keep his job. If a worker has an MRP below \$7.25, he may likely be dismissed from his position. The workers whose MRP is below \$7.25 often times are unskilled - because of a lack of training, lack of experience, or other similar handicaps. Therefore, if the aforementioned workers lead the charge to legislate higher wages, they are risking their own jobs.

From a business owner's point of view, anybody who is not producing at least \$7.25 per hour is losing the company money. A profitable business cannot survive if it is forced to pay its laborers more than they can produce. Lifting wages artificially,

76 It is difficult to estimate MRP in the real world of non-blackboard economics. Witness the trials and tribulations of another basketball player, Jeremy Lin. He went to Harvard, and everyone knows no student at that university can play basketball in the NBA. Also, he is Taiwanese, and everyone knows that Asians, unless they are 7'6" tall, cannot join the big leagues. As a result, he was lucky to be a bench rider for several teams, before the New York Knicks gave him a chance, and he did well. Basketball scouts are paid highly for their skills evaluating prospects, and yet they missed Lin's talent. However, the market rewards entrepreneurs who can accurately judge MRP, and penalizes those who cannot. So, our presumption is that MRP tends to be measured pretty well, at least as accurately as imperfect human beings are capable of.

77 This is because he did "his thing" on the basketball court with panache. He put rear ends in seats in the arenas. Another basketball player might have equaled his output strictly in terms of scoring, rebounds, assists, etc., but done it with less flamboyance. Such a player would have had a lower MRP.

by raising the minimum wage, is one of the worst things for a business.⁷⁸ A common complaint against the aforementioned argument is that business owners who have all the power to determine wages would exploit workers; therefore, the salaries of the workers would be below equilibrium. But this fails to realize that if a worker is producing at or above equilibrium, and is being underpaid, then a competing business will have a strong incentive to offer that worker more than what he is currently being paid. No laborer who is meeting his MRP should be underpaid, and if he is, he will tend to move to another business, which will reduce the profit of his former employer.

Ironically, the putative representatives of those who suffer the most harm from the minimum wage are the most outspoken about raising it (Ahn, Arcidiacono, and Wessels, 2011, p. 22). While businessmen may not want their own wages raised to uneconomic levels, some of them are faced with low-wage competition and advocate minimum wages to hamper their competitors. This partly motivates their support for legislation like *Davis-Bacon* (Leef, 2013).

Take, for example, the black population, whose decline in working force participation can be directly linked to higher minimum wage levels. Today, black unemployment is significantly higher than that for whites; however, that was not always the case (Econographics, 2013). In 1930 black participation in the labor force was higher than that of whites (Sowell, 2013). What has changed since then? 1930 was the last year that there was no federal minimum wage law. In 1931 President Herbert Hoover signed the *Davis Bacon Act*, which was meant to prevent Southern black workers from coming up North and taking lower wages on government projects as well as having the effect of discouraging “run-away-shops” from moving from north to south to take advantage of lower wage scales in the latter areas (Thieblot, Baskin and Dorn, 2012). The white workers were losing jobs to their Southern black competitors who were willing to work for less money, and gain on-the-job experience. Since then, black unemployment has skyrocketed as compared to white unemployment. If employers were not forced to pay workers—black, white, unskilled, young, etc. wages that are above their MRP, there would be more jobs in the United States. Indeed, if the government gave

78 But it is not all that bad, at least compared to the fate which befalls low-skilled workers: unemployment. The business firm can fire employees whose MRP now falls below a new, higher minimum wage level, and replace them with more skilled laborers and additional and more sophisticated capital equipment, as in the case of automated elevators, registration kiosks at airports, etc. Another possibility is substitution via self-service. Gas stations used to employ people to wash the windows, check the oil, the tire pressure, etc. These jobs have virtually all been eliminated due to self-service – engendered by minimum wage legislation.

up all interferences with the labor market – unemployment insurance, support for unions, artificially lowering interest rates via the Fed – there would tend to be no structural or cyclical joblessness at all. Uri and Mixon (1978) provide strong evidence that minimum wage laws exacerbate income inequalities, showing that its “cost in terms of lost employment opportunities and cyclical vulnerability of jobs, however, has apparently been borne most heavily by low-wage industry employees” (p. 103).

An argument against doing away with the minimum wage law centers on underbidding. Suppose that a group of employers decide that they will pay their entire professional workforce one penny per hour to work for them. What could the workers trained in that specific field—be it the auto industry, computers, college professors – do? The solution comes from entrepreneurship. A business owner who is looking to enter the market will see that this group of employers has colluded together in order to increase their profits at the expense of their employees. Thus the smart businessman, seeing a gaping hole in the market, will offer more than one penny to these workers to come work for him. By driving the price up even one more penny he will begin a bidding war for these employees that will continue until the workers’ salaries rise to the level of their MRP. Collusion by employers is not possible in a free market where there is opportunity for new businesses to enter the market and drive up workers’ wages.⁷⁹

To put the minimum wage issue into perspective, we can look at President Barack Obama’s proposed minimum wage hike from \$7.25 to \$9.00 per hour. That is nearly a 25 percent increase in wages. To put this rise in perspective let’s apply it to other products, since labor is a product.⁸⁰ What would happen if the price of cars went up 25 percent? Do you think that more people would want to buy houses if the price rose 25 percent? Now, take the reciprocal of this question. What would happen if the price of cars fell by 25 percent? What if the price of a house fell by 25 percent? The basic law of demand says that the higher the price of something the less of it people will purchase, the lower the price the more (*ceteris paribus*). Labor

⁷⁹ Cartels tend to break up though either internal or external pressure. The latter means that outside firms will bid more for these underpriced resources. But there is also internal pressure; each firm that is a member of the cartel will have an incentive to hire more of these highly profitable workers, who are now, by assumption, being paid only \$.01 per hour. But the only way they can do this is by bidding up the wage.

⁸⁰ Some economic illiterates will object to workers being treated as a “product” or a “resource.” But they would not object to doctors treating their patients as groups of cells. *Neither* practice is demeaning or callous. This is what science is all about.

is not an exception to that law; therefore, artificially raising the wages of workers runs afoul of the basic law of demand.

Some economists believe that the minimum wage and its gradual increase has little to no effect on the economy. After President Barrack Obama's February 2013 State of the Union speech, many left-wing newspapers came out and supported his proposal to increase the minimum wage. The go-to source for all such efforts was a two-decades old article by David Card and Alan Krueger – Chairman of President Obama's Council of Economic Advisers from 2011 to 2013 – which claimed to present evidence that not only did a minimum-wage increase not reduce employment, but actually led to an increase in employment (Card and Krueger, 1994).

While the process of trying to avail themselves of a “natural controlled experiment” in their research may be admirable, Card and Krueger's implementation of that research left much to be desired. For one thing, they restricted their sample to a small sub-set of the fast-food sector of the restaurant industry because “it is relatively easy to construct a sample frame of franchised restaurants” (Card and Krueger, 1994, p. 774). This is an example of what statisticians call “convenience sampling”. Such sampling is unlikely to provide a representative sample and therefore is not projectable, making it inappropriate to use to make policy recommendations for the nation at large.

In addition, they used telephone interviews of franchise managers or assistant managers to collect their data. This is a method subject to a great deal of noise as the many responsibilities of these harried supervisors are likely to compromise their memories. In many cases, data collection is quite a challenge and researchers must often make do with what they can. In this case, however, economists David Neumark and William Wascher were able to obtain payroll data from most of the same establishments Card and Krueger used and obtained results totally at odds with their 1994 study (Neumark and Wascher, 2000). Others who have examined Card and Krueger's data discovered many gross anomalies. One such anomaly is a KFC in New Jersey that went from employing no full-time and 22 part-time employees to having 25 full-time and 15 part-time in the months following the raising of the minimum wage (Employment Policies Institute, 1996, p. 3.). But best practice would be to carefully scrutinize any data point with so little face validity so see if there had been a coding error, a misunderstanding of the question or some other such reason for the seeming anomaly, and making appropriate corrections. If the data were, indeed, valid, then the task facing the researcher would be to find where the *ceteris paribus* condition failed to hold.

Moving from data collection issues to the conclusions of the study, Bryan Caplan (Caplan, 2013) has pointed out that these conclusions actually contradict a study David Card (Card, 1990) previously carried out on the impact of immigration during the Mariel boatlift. This study shows that this increase in the labor force had no major impact on wages in the Miami area. While Card mentions certain offsetting labor supply factors, to the extent that there was any net increase in labor supply, the paucity of wage decreases would imply a very elastic demand for labor. A very elastic demand for labor would, of course, generate a strong disemployment effect of the minimum wage.⁸¹

Another problem with their study that Card and Krueger do admit to is that it is incapable of estimating the impact of minimum wages on new entrants (Card and Krueger, p. 788) - that is, it cannot let us see what businesses and, therefore, jobs were never created as a result of the minimum wage. Indeed, this may be a problem for empirical research in general, not just the New Jersey/Pennsylvania fast-food study by Card and Krueger.

One last point about Card and Krueger is that in trying to select a theory to replace traditional supply and demand analysis of their empirical results, one of their options is that fast-food restaurants enjoy monopsony power (Card and Krueger, 790) - i.e., that they do not have to compete very hard with other firms to obtain their low-skilled workers. This would make the marginal cost of hiring an additional worker more than the wage paid, because all extant workers would have

81 Elasticity is a concept widely employed in economics. In general it refers to the responsiveness, in percentage terms, of one variable when another one changes. For example, if the price of oil falls by 10% and the use of oil rises by 20%, we say that the demand elasticity of oil is -2, or, taking the absolute value, as is customary, it is plain old +2, or, simply, 2. In our particular case, we are concerned with the elasticity of employment with regard to wages. If salaries paid rise by 10%, what will be the fall in jobs offered? A high elasticity of, say, 2, means that employment slots will decrease by 20%. A relatively small elasticity, of, for example, .1, means that job offerings will fall by only 1%. The advocates of minimum wage rates in general, and increases thereof, maintain that the elasticity of the demand curve for relatively unskilled labor is very small: a big increase in the wage required by law will have but small effects on hiring, or firing, or workers. Virtually all of them will keep their jobs, and/or be offered them in the first place. Most opponents of this legislation argue that the elasticity is high: the very existence of this law, let alone an increase in its level, will have severe unemployment effects. One of the most powerful arguments of the latter position is that elasticities tend to rise the longer the wage increase is in effect. That is, in the very next day after a minimum wage is implemented or raised, yes very few workers will lose their jobs. The elasticity is indeed low. It takes time for employers to substitute away from unskilled labor, and hire more skilled labor, along with more capital, particularly sophisticated versions thereof. For example, self serves, and automatic machinery, and robots, can substitute for unskilled labor that is priced out of the market by the minimum wage law, but not immediately. It takes time to implement these changes. But as time passes, the elasticity of the demand curve rises, and more and more firings take place.

to have their wages increased to the same level. Supposedly, by making the supply curve horizontal at the minimum wage level, this would reduce the marginal cost of hiring to the wage, and permit an increase. Outside of company towns, this phenomenon is rare and in densely-populated, highly-developed regions such as New Jersey and eastern Pennsylvania, the existence of monopsony power clearly strains credulity.⁸²

The Wall Street Journal (19 February 2013) critiqued the calls for raising the minimum wage based on the Card and Krueger study. In an article entitled ‘The Minority Youth Unemployment Act’ (n.p.) it cited a White House memo that claimed, “a range of economic studies show that modestly raising the minimum wage increases earnings and reduces poverty without measurably reducing employment” (Williams, 2013). *The Wall Street Journal* article refers to a study by Neumark in which he examined more than 100 academic case studies on the minimum wage. According to his findings “about 85 percent of the studies ‘find a negative employment effect on low-skilled workers’” (*Wall Street Journal*, 2013) rebutting the main point of the memo.

We can do better than mere econometric studies. There is, even more importantly, the pure logic of the argument. Any minimum wage law, at whatever level, will in equilibrium cause all those whose MRP is below that minimum to

82 For a critique of the very theoretical underpinnings of the monopsony argument, not only its non-applicability in this case, see Block and Barnett (2009). Monopsony is in some ways the polar opposite of monopoly. In the latter case there is a single seller of a good, such as Alcoa aluminum, or IBM, when these companies owned the overwhelmingly dominant share of their respective industries. In the former case, there is only one buyer, and the best example of this is Hershey Pennsylvania, the producer of chocolates. In that small town, apart from a few grocery stores, filling stations, bars, schools, etc. virtually all employees worked for the Hershey company, in their chocolate factories. Both of these concepts are part and parcel of mainstream economics. The Austrian school rejects both (apart from when government grants special privileges to its favorite crony capitalists, and that phenomenon is not in play at present). So Austrians reject the very concept of monopsony (and monopoly) when size alone or percentage of an industry’s output is concerned, apart from governmental favoritism. But even neo-classical economists, who support the idea of monopsony as a theoretical construct, would reject it in the modern day, since travel is so easy nowadays, and if a company like Hershey started paying its workers a salary below their productivity levels, they could relatively cheaply move to other employers in the geographical area. For traditional economists, monopsony might well have explained wages in a bygone era, but not so much at present, certainly not for relatively unskilled workers with general training paid at or near the minimum wage level who could easily be employed elsewhere. Monopsony, for them could at best at present explain wages where only one employer could make use of the special and highly skilled talents of his employees, such as professional sports teams, or a company that hired virtually all of those with narrow training such as perhaps in computer science, or engineering. But these people earn much more than the minimum wage, and thus this consideration is irrelevant to our present concerns.

be unemployed. Period. Of course, we are never at equilibrium. However, we are always tending in that direction. There are inexorable market forces that tend to equate wages with MRP. The minimum wage reckons as if these did not exist. But they do. As High (2010) says in summarizing the thoughts of such economists as J.B. Clark, Mises, Hayek and Schumpeter, “functioning markets are the best way to improve the wages and well being of workers” (p. 573).

When all is said and done, what minimum wage laws do to the low-skilled workers who are negatively affected by them is to take away their best alternative. By definition, this forces them to resort to a worse alternative. In their zeal to find solutions to the problem of people not able to earn enough, supporters of the minimum wage fail to recognize the reality of the tradeoffs which render their solution illusory, leading only to, “some people earning more money and others earning none” (Worstell, 2013).

IV. SOLUTIONS

While the main focus of this paper is not on how to fix the problems caused by the minimum wage, solutions are preferable. The most obvious one is to eliminate the law altogether. If the goal is to permit low-skilled workers to earn more, what must be done is to increase their choices. The central issue that condemns many workers to unemployment in the presence of the minimum wage is an MRP that is too low. As stated before⁸³ workers are paid based on their MRP — how productive a worker is for a company. People who rely on the minimum wage are generally not very productive workers for various reasons. The main question becomes, how can we raise their MRP?

In order to improve workers’ MRP, the education system needs to be redirected. Today, too many young men and women are receiving an education that is long on political correctness and short on marketable skills. According to Thomas Sowell (2013), what enabled him to succeed was the education that he received. When asked what the difference between his education back in the 1940s versus that of today’s young Americans, particularly young African-Americans, he said, “First of all, they taught us the English language. They taught us the standard academic subjects. They were not teaching us tree hugging, they were not teaching us how to use condoms, they were not teaching us to be victims, and they held us to the same

83 We will state it again and again and again, one, because it is so crucial to an understanding of this issue, and, two, since so many people who really should know better, either ignore this insight or analyze the minimum wage law as if it was not valid.

standards they held other kids to. Now those of us who came from homes where there were no truly educated people, it was little harder on us, but that's nothing compared to how hard it was going to be if they had made allowances and lowered the standards for us" (Sowell, 2013, n.p.).

To the extent that this is true, the American education system bears some of the blame for teenagers, and even adults, who are unprepared to go out into the labor market. Too many people are under-trained, and go looking for jobs without the necessary set of skills to acquire one. The choice to be taught content that prepares one for the working world, whether through reformed curricula in current schools, or in trade schools or even apprenticeships outside of traditional school systems gets at the problem of low wages by adding to workers' options rather than reducing them. As such, it could avoid the counter-productive aspects of the minimum wage.

In addition to a lack of skills needed for a job, if a worker cannot find employment, he can receive welfare for sitting at home. If this occurs, not only is that person a burden for taxpayers, but more importantly, he is not actively engaged in the labor market, acquiring the skill necessary to advance up the wage ladder. The minimum wage law is an absolute catastrophe for low skilled workers, as they cannot find a job anywhere for \$7.50 per hour since their MRP is below that amount.⁸⁴ If that worker could find a job for \$5 per hour that would also teach the worker skills needed to raise his MRP—that would be a great situation for both the employer and employee. The more time the worker trains, the more productive he will become. Forcing the firm to pay the worker a wage above the latter's MRP is simply ludicrous and unreasonable. Instead, the employer should be able to pay any mutually agreeable wage, and there will be mutual benefit in that situation—the worker gains experience, and the employer gains labor at a reasonable cost.

V. IN SUMMATION

The minimum wage law has disastrous effects on the economy because it forces employers to pay low-skilled workers unnaturally high wages; thus, not allowing unskilled workers to attain on the job training. Since, its enactment in 1938 the *FLSA* has led to unemployment for any worker whose MRP is not equal to

⁸⁴ This is a slight exaggeration, as it only applies to equilibrium. In the real world, mistakes are made; workers are hired even though their productivity is below their wage. But when this happens, the firms that do so lose money and tend to go bankrupt, *ceteris paribus*. However, there is always a real-world tendency in this direction.

or higher than the minimum wage. While this law sounds compassionate, it only serves as a barrier to employment. Think of the minimum wage law as a bar that one needs to jump over in order to reach the promised land of employment. The higher it is raised, the more difficult it will be for people to receive jobs in the market. The minimum wage law is one of the most controversial issues in politics, and will continue to be as long as people remain uneducated about its consequences.⁸⁵

Ultimately the problem of the minimum wage law, as well as so many other laws purported to help the most vulnerable, is that you cannot make someone better off by eliminating his best alternative. That is just what the minimum wage does. To help such people earn higher incomes without causing collateral damage, one needs to add *better* alternatives. Reforming school curricula to include more productivity-enhancing content or to permit attendance at trade schools or apprenticeships outside of the current educational establishment are a few ways to raise productivity. Will this be enough to achieve the goal of higher income to the less skilled without consigning others of their cohort to joblessness? That all depends upon how elevated is the minimum wage level. At \$7.25, or even \$9 per hour, we estimate it will help a bit. But at \$15? Probably not very much at all. There is a limit as to what (even very expensive) education can do. Far better to eliminate the minimum wage, root and branch.

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⁸⁵ These consequences may be "unintended" in the minds of most of the electorate, but, once we ask *cui bono?*, who gains from this pernicious legislation, that can no longer be said. So, who are the beneficiaries? Unions, of course. Organized labor is generally more skilled, and thus in competition with the unskilled. That sector of society, plus their "progressive" supporters, are the most vociferous supporters of minimum wages.

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