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Minimum Wage

As the United States has learned over the past two plus centuries, the government must be involved with the national economy. The laissez faire approach to the economy practiced during the nineteenth and early twentieth century did not work. We discovered that the economy needed government involvement to smooth out the natural peaks and valleys of the business cycle. Government accomplishes this function with two types of policies: Fiscal Policy and Monetary Policy. This economic model works, and has led to the United States being the unquestioned sole economic super-power in the world. It was the model used in rebuilding Western Europe and Japan after World War II where both the European Union and Japan are both major economic powers. However, this model runs the risk of total collapse and failure when the government oversteps its authority and implements artificial wage and price controls.

Current economic policy is a meshing of the theories put forward by two great economic minds, namely Adam Smith and John Maynard Keynes. Adam Smith with his ground-breaking work, *The Wealth of Nations*, explained how markets, if left alone, would reach their natural equilibrium. That is: The market will decide who performs what task, how much the person performing that task will be paid, and the price the consumer will pay. Adam Smith said that the best market is the one that operates free of all government interference. Additionally, he argued that governments should always maintain a balanced budget, and to do otherwise was dangerous and irresponsible.

The western world followed this theory through most of the nineteenth century, and into the twentieth century. In the last half of the nineteenth century, Europe and the United States began experiencing large fluctuations in economic activity. This resulted in periods of extremely high unemployment and much pain and suffering. John Maynard Keynes theorized that there was a better way. He proposed that governments should be involved in the economy to the extent that their policies should work to level out the peaks and valleys of the business cycle. It was during the Great Depression and World War II that the United States began incorporating this theory into its monetary and fiscal policy.

Today there is a debate about further unnecessary government involvement in the economy. The government is telling American businesses and the American people that it knows better than the Free Market what wage levels should be. The innocuous name they use for this intrusion is “The Minimum Wage”.

A minimum wage law is not a bad thing provided that we understand and always remember its function: The only function that a minimum wage law can perform is to prevent worker exploitation. A minimum wage law must never be confused, or used as a backdoor to force a Family Wage on American businesses. A Family

Wage can be best described as a wage level that will sustain the average size family at the minimum standard of living. The extreme size of the American economy and its large service sector dictate that there are tasks that must be performed whose skill sets do not warrant a Family Wage. Also, young adults have become permanent fixtures in the service sector's workforce. A minimum wage law should protect these young people from exploitation, but it in no way should provide them with an income level that is higher than their skill sets warrant. The Free Market will dictate the appropriate wage level.

Businesses establish the wage level of an employee by weighing the benefit of a service, with the cost of a person to perform that service, and the need to achieve a profit. Any attempt by the government to impose an artificial wage level on the market is one hundred percent inflationary, and does not help the people it is intended to help: We submit that it actually hurts them. By this we mean, that the market establishes what a worker "flipping hamburgers" should earn. When an artificial wage level is imposed, the profit margin of the company is lowered resulting in the need to increase prices to maintain a profit. Hence, increasing prices negates the raise that was intended to put more money into the pockets of the workers. A legislated wage increase results in increased prices rendering the increased wages economically worthless.

The legislated wage increase hurts the worker in two ways. One, it spurs inflation. A three to four percent increase in the minimum wage will have a compounding effect on the inflation throughout the entire economy. The prices for all goods and services will increase at a rate, obviously much smaller than the wage increase, but when compounded over all goods and services throughout the entire economy, the net result will be less disposable income for the worker who just received a raise. When a disproportionate number of workers are given a raise that the market did not require, prices throughout the economy will rise. The inflation spurred by legislated wage levels will hurt everyone, but it will be especially harmful to those who can least afford it.

Two, legislated wage levels stifle our human spirit's desire for self-improvement through a false sense of accomplishment. Workers that are provided a wage level higher than the market will bear, develop the false perception that they have achieved a skill set that warrants that wage. They are being misled by more dollars on a paycheck, and confused by fewer ones in their wallet.

Minimum wage laws are "feel-good legislation" put forward by a government that is trying to create the perception of compassion. We have shown that this legislation is exactly the opposite of compassionate; it is actually a tool to keep the people that need help, impoverished. Improving the economic situation of the less fortunate can best be accomplished by helping them improve upon their current skills set.

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