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Don’t “Fight for Fifteen”

(unless you want to be unemployed, living with your parents or depending on the kindness of strangers).

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By Allen R. Sanderson

In addition to questions and concerns over the ubiquitous Affordable Care Act and its impacts on employers and employees in coming years, we have been treated in 2013 to a flurry of rhetoric and actions on one relatively unimportant yet emotionally charged topic in labor markets: minimum wage rates.

Back in February, President Obama announced in his State of the Union address a proposal to raise the federal hourly minimum from $7.25 to $9. Governor Quinn then put forth his own I’ll-see-you-and-raise-you-$1 $10/hour plan. (In Illinois $8.25 is the legal minimum.) Over the summer, some fast-food workers in several major cities, including Chicago, staged a few work-stoppage protests in their quest for a $15 hourly minimum.

What are the basic – and beyond – Econ 101 aspects of these proposals?

At first blush, and with a lot of empathy (including mine), this would seem straightforward: If someone currently makes $8.25 an hour flipping burgers in Chicago and the firm is now required to pay $15, his/her gross income for that full-time, 2,000-hour-a-year position just increased by over $13,000, or 80 percent. That’s a good thing for this worker – at least immediately thereafter.

But that calculus assumes no one else adjusts to this change. For the business establishment maybe it originally did not make sense to automate when its employees were not “a dime a dozen” but only $200,000 a dozen. But after the wage hike, when these workers now cost $360,000 a dozen, it may.

Also prior to the change, the firm couldn’t attract a better-qualified employee when it offered only $8.25 an hour, but now it would suddenly be able to dip into a more attractive labor pool when its guaranteed wage is $15 an hour, leaving the teen or poorly educated adult worker having to eat burgers instead of sell them. For sure, some folks will keep their jobs and have a handsome pay increase. But others, mainly those at the bottom of the current labor-market food chain, will lose their jobs – to a machine or to a more skilled substitute.

Nationally the unemployment rate for minority teenagers is over 40 percent, and Illinois’ overall unemployment rate, at 9.2 percent, is the second highest in the nation. Do we really want to strive for #1 on yet another score? Can you say unfunded pension liabilities, murder rate, or gasoline prices?

(We first established a federal minimum wage – 25 cents an hour – as part of the New Deal in 1938. Adjusting only for inflation, the 2013 equivalent would be $4.14. As a percent of the U.S. median wage, $7.25 is less than 40 percent, about what it has averaged for the last 25 years, though in comparison with other economically prosperous nations, the U.S. falls toward the "stingy" end of the spectrum.)

One basic tenet for economists is that there is no free lunch. Or, in this case, no free burgers, fries and shakes. Someone has to pay for the wage increase. Is it going to be McDonalds' stockholders and franchise operators (who would get lower returns on their investments and sweat equity), McDonalds customers (who would pay higher prices for their now less happy meals, or defect to gustatory alternatives), some previously employed workers who now have pink slips, and/or taxpayers in general (who pay for various welfare programs)?

But what about the claim that one can't live on $8.25 an hour and that someone working full time would be in poverty? That is simply not true. The established poverty line for a single individual is $11,490. Someone working 2,000 hours a year @ $8.25 an hour earns $16,500, which is well above that federal threshold. (The two-person household poverty equivalent is $15,510; for a family of four the bar is set at $23,550.)

Would I like to live on $16,500/year? No. But there are better ways to address this problem without so many unintended consequences – see below.

Part of the free-lunch crowd mistakenly assumes that these firms are exercising their market power to exploit their workers, paying them less than their economic worth. In the United States the hold that business firms have over their employees – and customers – is arguably lower than at any point in our history. The "information highway," huge decreases in transportation costs, and an increasing international landscape have turned the tables forever.

More likely, however, is that the push for higher minimum wages and living-wage ordinances is not by innocent bystanders with a humanitarian agenda, but rather disingenuous ploys by a special-interest group – service unions hell-bent on recruiting dues-paying workers to offset their membership losses and revenues in rapidly changing labor markets – and protestor accomplices they dupe. (The same forces are the ones protesting big-box retailers.)

If we believe that low-wage workers, and those even less fortunate, should have a better financial existence in this country, which I do, then let's approach this serious inequality problem in terms of generalized redistributions (such as the Earned Income Tax Credit program), changes in our tax codes, and initiatives to increase the education level and productivity of those whose current skill set renders them virtually unemployable in a high-tech economy. McDonalds is pretty good at making burgers and fries, but there is no reason to assume the company is equally adept at running a welfare program, nor should they be. And we all, as residents of this country, should have a stake in improving outcomes for the truly disadvantaged.

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