



Free market not the way to set wages

By Andrew Sharp

August 12, 2014

The minimum wage debate has been making the rounds in the last year or so like an epidemic disease. It quiets down for a while, and then breaks out again in the media, causing much foaming at the mouth.

Out of the emotional maelstrom, several basic arguments emerge. One side calls for decent, living wages for the poor. Others counter that a minimum wage will undermine the economy and put people out of jobs.

I'm pretty sure the major networks could just program some robots to hold the debate, it's become so predictable. The robots opposing the minimum wage, though, would need some adjusting to make it a good debate.

It's understandable that people operating businesses with tight margins, like coffee shops, are concerned about being tipped over the edge into bankruptcy. But in an effort to bolster their case, some minimum wage opponents resort to the old argument that we should just let the free market set wages. Let the magic of capitalism do its work, they say, so that employees will be paid their true value instead of some artificially inflated rate.

In a piece for the Cato Institute in January, for example, James A. Dorn wrote, "Further government intervention in free markets is the path toward socialism, not market liberalism. Letting free markets determine wage rates is consistent with a free society and also with economic logic."

There are some tiny problems with this kind of argument. One is that there hasn't been a truly free market in a long time, if ever. Governments have always tampered with the system, as have businessmen who sought to create monopolies so they could rule the free market as dictators.

Be that as it may, a hypothetical free market is not a good way to set wages.

The idea, greatly simplified, is that market forces like supply and demand will find the true value of a profession. For example, if employers aren't offering enough money, people will go elsewhere for the jobs. Thus, employers will be forced to offer people what their services are

truly worth. Conversely, workers who hold out for too much money won't get jobs — someone else will be eager to do the jobs for less. It sounds great, unless you aren't very talented.

But behind the logic are some badly flawed assumptions, one being that employment is like pizza or Pepsi. If the pizza joint charges too much, go somewhere else. If Pepsi is too expensive, choose Coke. If you can't find a good job ... don't work? Unfortunately, people have to eat, and have a few other small needs as well, like shelter and clothing.

Imagine if people didn't require food, or if the Eastern Shore were warm enough, and the culture relaxed enough, that they didn't need clothes or houses. How much would McDonald's have to pay to get people to work there? Maybe that \$15 an hour workers are demanding would be a bargain.

Another bad assumption in this free market logic is that there is roughly one job to match the talent of every person. If sweeping floors at one place isn't good enough, you try the place down the street. It's not that simple, of course. Jobs have disappeared in the past decades, and have not come back. Employers hold huge leverage, such that, in a free market with no interference, they could pay desperate employees far less than the employees are worth.

And of course, long experimentation has shown that people aren't truly paid what they are worth. Did Carnegie, Ford and Rockefeller deserve their riches because they were a thousand times more talented than the poor and middle class peons who labored to produce their wealth? While no doubt talented, these tycoons took advantage of circumstances to leverage their profit. This seems more a measure of their cunning and ruthlessness than their value.

The free market idea, then, contains some utopian assumptions that don't pan out in the real world. So it would seem that tampering of some kind is necessary.

In fact, one of the most useful forms of government intervention is when people are exploiting one another. It's one of the biggest reasons we need government in the first place. So why do we insist the government keep its hands out of our economic relationships? You can't murder people, and you shouldn't be allowed to underpay them either.

If you don't like the minimum wage, fine. But what would you recommend? "Let the free market have its way" is not good enough.