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Good Intentions Don't Always Lead to Good Results

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In market economies, the wages for many low-skill tasks seem appallingly low to outside observers. Many people find it inconceivable that people can live on the implied incomes, and so they advocate for policies designed to raise wages above market-clearing levels. These policies include minimum wage laws, union protections, anti-Walmart campaigns, trade restrictions, anti-sweat shop laws, and more.

These policies may have good intentions – although in some cases they merely reflect attempts to suppress competition – but regardless, such policies are ill-advised.

Minimum wages raises incomes for those who keep their jobs but lowers them for those thrown out of work because employers substitute machines or higher skill labor for now over-priced low-skill labor. Union protections mean higher wages for those in the union, but lower or no wages for those not hired because the union priced labor above its productive capacity; in some cases, union protections encourage employers to re-locate overseas, in search of lower-price labor, costing all the employees their jobs.

Trade restrictions help maintain higher wages for domestic workers but, but lowering demand for imports, reduces wages in other countries. Restrictions on Walmart protect the incomes of mom-and-pop retailers but also prevent large numbers of workers from getting a higher paying job than they had pre-Walmart. Bans on sweat-shop clothing mean that low wage workers in poor countries have no wages rather than low wages.

All this interference, moreover, makes the economy less efficient, implying a smaller economic pie. And one manifestation is higher prices for everyone, including low-wage workers.

Thus societies that wish to redistribute should let markets determine wages, regardless of how low these might be. Instead, they should consider policies that explicitly redistribute, such as a negative income tax or Earned-Income Tax Credit, subsidized health insurance for low-income households, or reduced price schooling.

These policies can generate their own distortions, especially if too generous, but at least they target poverty directly by consistently transferring resources richer to poorer. Letting efficiency reign in labor markets also maximizes the economic pie that is available for such redistribution.

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