Minimum Wage Guards Against Greed

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In the context of the current debate over raising or even retaining the federally mandated minimum wage, the question has been whether it is an effective anti-poverty measure.

In Britain, opponents of an increase in the state minimum wage also argue that increases would introduce into the labor marketplace. In point of fact, however, whether the minimum wage is an effective anti-poverty measure should not be the question for debate. The question for debate should center around the real purposes of the minimum wage. An examination of these real purposes demonstrates why opposition based on market intrusiveness has no merit.

The minimum-wage law was designed to benefit the employed workers in businesses and industries where they had almost no bargaining power and were therefore subject to exploitation. It was also designed to prevent employers and industry chieftains from maintaining their profits and market position, or even their businesses, based upon these exploitative practices.

Thus, the minimum-wage law was designed to intervene in the marketplace, not in order to provide social benefits at the expense of a properly functioning market for labor, but to remedy imperfections in the labor market. The real question for debate then is whether the minimum wage still promotes these purposes.

The argument between proponents and opponents has followed this pattern: Given the undisputed evidence that the vast majority of minimum-wage workers include non-union garment workers, nursing-home workers, janitors, sales clerks and gas-station attendants, the original intention of the Fair Labor Standards Act is to ban the exploitation of women and children.

Although in the rhetoric of the New Deal, "chiseling" replaced "sweating," then as now women and teen-agers (and non-white) form the vast majority of minimum-wage workers. In Pennsylvania, these minimum-wage workers include non-union garment workers, nursing-home workers, janitors, sales clerks, and gas-station attendants.

Enactment of a legal minimum wage was again in the words of the Supreme Court, "a recognition of the fact that due to unequal bargaining power as between employer and employee, certain segments of the population required a legislative protection to prevent contractors on their part which endangered national health and efficiency."

That the prohibition of specific forms of worker exploitation, rather than the achievement of a "living wage" as such, underlies early minimum-wage measures was recognized by such a profound conservative as former President and then Chief Justice of the Supreme Court William Taft, who wrote in the 1920s that: "Legislatures, in limiting freedom, make it harder for the underpaid employee to compete with the minimum-wage worker, prohibited on the assumption that employ-" and as the class race map leads them age be, upon a full level of equality, men and women in the labor market and in the various occupations."

The other principal function of the minimum-wage law is to increase productivity in the economy as a whole by driving "parasitic" firms out of business and concentrating production in the most competent firms. Thus, as stated in Congress in 1897: "It is the chiseler, the corner-cutter and the downright unscrupulous who need our attention. It is this small percentage of employers who drag down our business standards and make it harder for the overwhelming majority of our American businessmen to compete on a decent basis. These are the people from whom we need a Fair Labor Standards Act - let me call it a Fair Labor Competition Act and let us make the employers who should keep, in mind, in voting on the bill.

By requiring the "chiseler" to pay a minimum wage to their workers, Congress was able to protect "fair" employers from unfair competition and at the same time to ensure that private wage costs reflect total social costs of labor equality across firms and industries. Thus, the chiseler would not be able to subsidize his insufficiency by grossly decreasing wages to the detriment of his employees, his competitors and society in general, which would have to make up for his exploitative practices.

I he federal and state minimum-wage laws were designed primarily to undermine the viability of wage competition within industries, their salutary purpose has also achieved where entire industries have taken labor "market failure" resulting from an overabundance of workers willing and able to take the jobs they offer.

Fully three-fourths of all minimum-wage workers are concentrated in retail trade, clerical occupations and service. Since these occupations are by and large insusceptible to commodity impera- and to exploit of, any increase in costs associated with increased minimum wage in such industries does not present a major risk of loss of employment. From foreign competition.

The usefulness of the minimum wage in prohibiting these anti-exploitation and pro-productivity purposes has not diminished since the 1930s. Nor can its effectiveness in promot- ing these purposes be judged on the basis of its effectiveness as an anti-poverty measure. Moreover, these purposes would not be displaced by the "laissez-faire" of social welfare programs and the adoption of poli- cies specifically designed to amelio­ rate the condition of the working poor.

Therefore, if well-targeted, anti-poverty governmental policies, such as the negative income tax or increased earned income tax credits according to family size, were insti- tuted, such policies would not usurp the role of the minimum-wage law in preventing exploitative practices of employers that work to the detriment of both employees and responsible employers alike.

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