

The Folly Of The Minimum Wage

The campaign for a minimum wage has been reactivated again, on both sides of the Atlantic, in fact it has never really gone away. In the UK we have seen small and big companies being “named and shamed” for failing to pay it, everything from a nightclub in Stowmarket to the [Tesco supermarket chain](#).

A minimum wage sounds idealistic, indeed for employers to pay their workers miserly wages sounds immoral, but most of the people who support it in principle are profoundly ignorant of what it means in practice.



In a free market or relatively free market, rates of pay like other prices are broadly speaking functions of supply and demand. Of course, there are exceptions. In 1982, the American author Gerald Krefetz pointed out with dry humour “...there are over twice as many lawyers as there are bakers - a fact that does nothing to explain why bread is relatively cheap and litigation is not.”

So why not simply increase the minimum wage? Instead of \$15 an hour, how about making it \$50 an hour, or \$500 an hour for everything from babysitting to dog walking to washing up in a restaurant? With *reductio ad absurdum*, the fallacy is obvious, but let us take a more terrestrial approach.

If the market sets the rate for wages as for everything else, for the minimum wage to mean anything, it must be above the market rate. If a particular trade pays between \$40 and \$50 per hour, then clearly a minimum wage of \$10 per hour will make no difference. If a private sector company is forced to increase the minimum wage, unless it is making massive profits it will have to cut back on (dividends for a public company), materials, or other costs. Alternatively it can raise its prices or fire staff. The latter is what almost always happens, and indeed this has been noticeable especially with supermarkets and fast food outlets the world over; machines, including self-service check-outs, are gradually replacing staff. In China, some shops [are totally automated](#).

Public sector employers do not have this problem because they can always increase the pay of their staff, but who pays? The taxpayer and the ratepayer, of course.

The reality is that many jobs that are now forced to pay the minimum wage are or were entry level jobs. Cinema usherettes, some retail and fast food jobs, were traditionally the preserve of single mothers working part-time, housewives earning pin money, students, or weekend jobs worked by high school kids. They are “entry level” jobs; no one was ever intended to support a family on them.

So what is the solution? The solution is to stop blaming employers - the principal wealth-creators - and to look to the Government for other solutions. One of these is universal basic income, whose most high profile advocate in recent years has been Andrew Yang, although his idea of paying for it out of taxation [is flawed](#); the national dividend needs to be paid out of newly created debt-free money.

There are also other ways of helping especially the poor that cost little or nothing. With the current situation, many more people are now working from home, which saves on travel and related costs. With the rise of Zoom and other conferencing programs, people also have more time on their hands. When the worldwide lockdown finally ends, work patterns are likely to have changed substantially from what they were before. If Andrew Yang can think outside the box, so can the rest of us. The minimum wage needs to go, and all the legislation associated with it.

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