



INDIVISIBLE

Social and Economic Foundations of American Liberty

Leading Conservatives
Exchange Policy Perspectives

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INTRODUCTION BY JAY W. RICHARDS

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WAGES

The Value of Wages

BY BISHOP HARRY R. JACKSON, JR.

IN LATE 2008, A FUNNY THING HAPPENED TO OUR AUTO industries. The heads of the top three American firms flew to Washington, D.C., to ask the U.S. government to bail out the beleaguered trio. Unfortunately, the CEOs had failed to check with their public relations firms, who might have suggested driving from Detroit to D.C. They could have had a great communications campaign. During their “drive to Washington” (no doubt in an American-made hybrid), they could have stopped at historic landmarks or closed factories or dealerships. With little effort, they could have dramatically illustrated that one out of 10 American jobs is somehow connected to the auto industry.



Harry R. Jackson

Instead, these bright corporate titans flew into town on three separate jets. Apparently, jet pooling did not occur to them. This *faux pas* set off a series of discussions about wages at the corporate level. (Unfortunately for the American public, the real wages of the union workers were never accurately assessed. If the media mentioned the subject, it was usually by way of spin. One *New York Times* headline read, “\$73 An Hour for Autoworkers and How It Really Adds Up.” The author claimed that enemies of unions had grossly exaggerated the autoworkers’ wages.)

From white, middle-class country clubs to ethnic barbershops, everyday folks were suddenly debating the morality of auto industry pay scales. Some people began to speak in near socialistic terms about the need for wealth to be redistributed. Others decried the tendency of lawmakers to punish achievement rather than reward it.

After the dust settled, most Americans could agree on only two things. First, the auto industry needed a comprehensive readjustment of costs in order to remain competitive. Second, the unwillingness of both union workers and management to develop rational plans for remuneration jeopardized the survival of two out of the big three automakers.

MORALITY AND WAGES

So a discussion about the morality of wages is timely, especially since the subject is so widely misunderstood. I would like to provide a clear way of viewing compensation. My perspective is based upon basic moral law and common sense. Although I am a theologian with an MBA, I will avoid boring you with a litany of Bible verses or micro-economic theories that I studied in graduate school. I will simply say that we should want workers to receive just compensation for their

labor. While I would argue that fair wages are morally desirable and necessary for a just society, I also think that the government is a bad guardian of our interests in this matter.

First of all, having government establish fair or appropriate wages that everyone can agree upon would be an extremely cumbersome process, if not impossible. There are scores of little hurdles that would prevent it. After all, there is no objective, international equation that determines what each individual should be paid in a particular time and place. How could there be? How much my labor is worth at a particular time and place is not written in the laws of the universe. In a free society, wages are based upon what someone is willing to pay, just as value is set for a large variety of other goods and services.

For instance, a few years ago, much was made of a wealthy presidential candidate paying \$200 for a haircut. He was called “wasteful” and an “elitist.” While many of us would gladly settle for a \$20 “do,” that did not stop him from using the expensive barber’s services on an ongoing basis. Many of us may find it irksome that some hairdressers get \$200 for a haircut, while others get \$20. But this variation in wages is one of the marks of a free society. Free societies base the value of labor on the willingness of others to pay an individual a certain amount for that labor. The alternative is to force people to work for a fixed amount and to force employers to pay employees a fixed amount, regardless of the economic value of their labor. This coercion reminds me of slavery. As an African-American, I have a special, personal abhorrence against fixing salaries. Taken to its logical conclusion, it is one step away from a 21st century brand of slavery.

But many will ask: “Is this fair that some should receive so much, and others so little?” I would respond: “How does one determine fairness?” And, “Who is going to enforce your vision of fairness?” Naturally, we may want to establish some legal guidelines for personal safety, working conditions, and things of this nature. But determining wages based on one’s subjective idea of fairness is another thing entirely.

As an ex-professional football player (I spent three days in the NFL), my wages in the mid-1970s were nominal. I signed an annual contract for just \$17,500 in 1975, while top-round draft choices might have received a whopping \$40,000. (What a difference 30 years makes!) But I do not begrudge the top draft choices. On the contrary, I am delighted that today working-class kids from the ghetto can rise to millionaire ranks, and not just as athletes. Rags-to-riches scenarios are being lived out in this generation. While you might question the socially redeeming value of the work of some athletes, many of the young black entrepreneurs of this generation have earned the seed money for their work from huge salaries earned in sports or entertainment. Consider Michael Jordan, Sean (Puffy) Combs, Jay-Z, Russell Simmons, and a host of others who are now developing multinational businesses that are collectively employing thousands who, in turn, are seeing the glass ceiling in the business world shattered. This kind of development of wealth is much better than welfare checks or handouts.

I celebrate these persons' abilities to identify their marketable skills and use them to overcome poor social environments and move into a realm of world-class achievement. Their wealth comes not by government coercion or dishonesty but from the free choices of others who value what they do. This model for personal and community development is achievable only in an economically free culture. Of course, I sometimes wish these folks would take bolder steps to improve the social and moral dimensions of our society. Moreover, some of these figures make poor choices and fail to give to their communities, yet this is their choice to make—not ours. The stinginess of some should not lead us to support coercive policies that would ultimately harm us all.

Certainly, it is regrettable that many of us do not have the highly marketable skills that professional entertainers and athletes do. As a result, there is often a wide disparity between what individuals make for a living. Many people believe that the disparity, in and of itself, is immoral. Others celebrate the fact that in our society one may truly be the captain of his own ship and navigate the waters of life to his benefit. As a minister, I want everyone to make enough to survive and thrive. Jesus' earthly ministry often focused on preaching good news to the poor. So there's no question that we should seek to help the poor. The question is, what type of economic system gives all of its citizens the best opportunity to maximize their God-given abilities and lift themselves out of poverty?

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COUNTERPRODUCTIVE MINIMUM-WAGE LAWS

I am convinced that wage controls, such as minimum-wage laws, are not the way to go. Minimum-wage laws don't make the work of minimum-wage earners more economically valuable. They are merely attempts to artificially reduce a wage gap. While they may help some recipients in the short term, they often hurt small businesses and entrepreneurs, which can reduce the aggregate number of jobs. In fact, the least skilled are often the folks hurt the most, since their labor is worth less to most employers than the minimum wage. If an unemployed laborer's work is worth only \$5 an hour in a particular place, how does he benefit from a law that forbids anyone from hiring him for less than \$10?

Many people assume that "economic justice" will come as a result of massive governmental control over the economy initiated by lawmakers in Washington. Many economists, however, argue that real growth in wages for low-income earners comes from the bottom up.

Let's look at some specifics about minimum wages for a few moments. Nearly 60 percent of all wage and salary workers are paid at hourly rates. These are the jobs that minimum-wage laws target. In 2004, 520,000 (or 0.7 percent of 73.9 million) workers were reported as earning exactly \$5.15 (minimum wage at that time). That may seem regrettable, but those workers tended to be young, single

workers between the ages of 16 and 25. Further, barely two percent of those workers continued to earn minimum wages after age 25.

The U.S. Bureau of Labor Statistics (BLS) gives the most comprehensive analysis of the people receiving minimum wage. The segment of the population earning minimum wage is constantly changing. The BLS concluded that 63 percent of minimum-wage workers receive raises within one year of employment and that, after three years, only 15 percent still earned the minimum wage. Few Americans are stuck earning minimum wages indefinitely.

Furthermore, 40 percent of minimum-wage earners live in households with incomes of \$60,000 and higher, and more than 82 percent of minimum-wage earners do not have dependents. This means that these minimum-pay jobs are probably not the main source of income for their household. Only 5.3 percent of minimum-wage earners are from households that are below the official poverty line.

Of course, American minimum wages tend to be fairly low and, in some cities, are not much of a burden. But even in these cases, minimum wages can have surprising unintended consequences, as columnist George F. Will recently explained:

Raising the minimum wage predictably makes work more attractive relative to school for some teenagers, and raises the dropout rate. Two scholars report that in states that allow persons to leave school before 18, a 10 percent increase in the state minimum wage caused teenage school enrollment to drop 2 percent.³³

If Will is correct, a mandated minimum wage can actually work against long-term increases in pay.

In addition, correctly defining an appropriate living wage (as minimum wages are sometimes branded) is highly subjective. The term “living wage” typically means making enough to provide for a family of four. As Thomas Sowell, the well-known author and economist, puts it, “What the so-called living wage really amounts to is simply a local minimum wage....”³⁴

The idea of a “living wage” is popular in various communities, churches, and academic institutions. It sounds nice, but Sowell points out that a mandated living wage actually kills jobs because as the living wage soars, job qualifications also rise. Those workers with fewer skills or less experience may become unemployable by the new standards. Sowell poignantly states, “Think about it. Every one of us would be unemployable if our pay rates were raised high enough.”³⁵ Of course, no

33 George F. Will, “The Right Minimum Wage,” *The Washington Post*, January 4, 2007, p. A17, at <http://www.washingtonpost.com/wp-dyn/content/article/2007/01/03/AR2007010301619.html> (accessed July 20, 2009).

34 Thomas Sowell, “‘Living Wage’ Kills Jobs,” *Townhall.com*, November 5, 2003 at http://townhall.com/columnists/ThomasSowell/2003/11/05/living_wage_kills_jobs?page=full&comments=true (accessed July 20, 2009).

35 *Ibid.*

one will suggest high minimum-pay rates for doctors and lawyers. Those who suffer from such policies are unemployed workers—those who can least afford it.

We want everyone to be able to avoid poverty. We want everyone to be able to pursue their talents and receive just compensation for their efforts. The question is how to best achieve that goal. Clearly, we should avoid strategies that have not worked in the past. If higher minimum wages could cure poverty, we could end domestic poverty just by setting minimum wages above the poverty line. And we could end worldwide poverty simply by telling poor nations to legislate higher minimum wages. It's just not that simple. Instead, we need policies that promote free enterprise, job creation, education, and training. These, not misguided federal mandates, allow wealth to be created. And only the creation of real wealth will bring the poor out of poverty in the 21st century, as it has done for countless others in the previous two centuries.

Minimum-wage laws don't make the work of minimum-wage earners more economically valuable. They are merely attempts to artificially reduce a wage gap.

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