

Effects of Minimum Wage Laws

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WE study the past to understand the present and to enable us to foretell the future. In the thirties, President Roosevelt signed a 40¢ an hour minimum wage law. President Truman signed a 75¢ wage minimum—President Eisenhower raised it to \$1 and President Kennedy upped it to \$1.25. We have lived with these minimum wage laws for a quarter of a century, so let us examine their immediate effects as well as the aftermath.

The accountant recognizes two types of labor costs—direct and indirect. Direct labor includes those who actually make the product—indirect labor is performed by office workers, shipping and receiving clerks, janitors, elevator operators, warehousemen, etc. Let us assume that a given product is made by 5 workers. What will happen when the \$1.25 an hour minimum wage law gives way to the \$1.50 an hour minimum? (See table below).

This does not include necessary increases in fringe benefits nor the increase in the indirect labor costs.

Because unions keep records of the ability and training of members, demands for increases take place as soon as a new minimum wage law is enacted. Worker B will refuse to work for \$1.50 an hour when A's wages have been raised to \$1.50. Since his work calls for greater ability and training, he will ask for \$1.75 an hour.

Similar requests will come from C, D, and E. From the figures we see too how the direct labor cost of a product has risen from \$8.75 to \$10.

The immediate result of a minimum wage law is a temporary improvement in the living standard of the lowest paid worker. But within a short time those not on the new minimum wage scale demand and get increases in wages, canceling the benefits received by those on the lowest rung. Although indirect labor workers are often not unionized, they also demand increases in wage rates. What have two decades of experience with these laws revealed?

I. Our exports continue to decline. The British, French, German and Italian workers earning from \$30 to \$50 a week cannot afford to buy products made by our labor earning from \$50 to \$150 a week. Engineers and scientists immediately try to increase the production of workers, but our production-line workers frequently resist their efforts. The increased cost of production compels the use of labor saving devices. Finally automation, which is considered evil by George Meany, president of the A.F.L.-C.I.O., is being forced on industry solely because of artificial increases in wages.

II. Imports should increase as a result of the new minimum wage law, yet why should Syracuse Sam pay \$17 for a pair of American-made shoes

	A earns	B earns	C earns	D earns	E earns	direct labor cost of product
Under \$1.25 per hour M. W. Law	\$1.25	\$1.50	\$1.75	\$2.00	\$2.25	\$ 8.75
Under \$1.50 per hour M. W. Law	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50	\$10.00

when he can buy Italian-made shoes for \$11? From Woolworth's on Market Street in San Francisco to Stern's on 42nd Street in New York City, we find international merchandise fairs taking place. Clothing, china, glassware, leather goods, jewelry, toys, foods, household accessories and furniture in endless variety are pouring into this country. We have become a splendid market in which to sell but a bad market from which to buy. Our prices are too high.

III. Fewer foreigners will be able to travel here as the minimum wage goes up because their money will buy so few dollars. Officially 20 Brazilian cruzeros can buy \$1 but in practice our Brazilian friend must give 1500 cruzeros for \$1. A Brazilian earning 90,000 cruzeros a month is really earning \$60 a month. If he can save 10 per cent of his wages he is saving \$6 a month or \$72 a year. How can he travel in our country? As the prices of our goods and services increase the foreign travelers decrease. This invisible export has all but disappeared.

IV. Americans, however, will settle and travel abroad for long periods of time. A couple who cannot live well here on \$300 a month can live very well on that amount in Austria, Denmark, Holland, Ireland, Israel, Italy, Japan, Spain and most Latin American republics. Many English citizens have been living in Italy and Spain for as long as 40 years, since their English pounds buy more there than at home.

V. Insurance policies also have less buying power at maturity than was anticipated when the contract was signed. Does this mean that to provide adequately for one's family a man must carry a greater amount of life insurance than he can afford?

VI. High interest rates plus high labor and material costs result in fewer community constructed projects. The need for additional schools, libraries, hospitals, roads and even prisons is

becoming more pronounced. Many communities are refusing to vote funds for these and other needs. A school that cost one million dollars 20 years ago costs close to four million today.

VII. Non-unionized American workers find their standard of living being whittled away as prices rise. America's labor force numbers 66 million workers. More than two-thirds of this is being adversely affected as successive minimum wage laws drive prices up.

VIII. Civil servants are becoming argumentative and sometimes even insolent in their treatment of the public and their superior officers. The strike of New York City's garbage collectors, subway motormen and school teachers are cases in point. The newest minimum wage law will eventually help to depress further the buying power of a large segment of our population. So few want to become civil servants today that New York has opened temporary quarters in other cities to help recruit efficient help.

IX. Public and private debt continues to increase despite a seeming condition of prosperity. The overall public and private debt exceeds \$700 billion dollars. It is increasing at the rate of \$20 billions a year. Under conditions of prosperity it should be decreasing, but it is not decreasing because we are not experiencing normal prosperity. High costs compel us to borrow a million dollars to build a mile of road which in the past would have cost only a third as much.

X. Apartment rents rise rapidly as they are decontrolled. Private builders find it impractical to build low-income and middle-income housing at current labor and material costs and houses now being built with government aid are considered to be of poor quality.

Yes, the minimum wage law touches every facet of our economic and social life. It certainly should not be increased. Few appear to recognize this cancer in our midst.