

Are Warnings About Minimum Wages Dickensian?

Responding to a recent article of mine on minimum wages (3-6-11), a correspondent to the *ODT* wrote, "Reading Roger Kerr's position on the minimum wage I am left wondering if he is a real person or a character from a Dickens novel."

My article warned of the dangers of legislating for minimum wages above market rates, and discussed the devastating effects of the abolition of youth rates.

I decided to regard the feedback as a challenge: how does one get across the potentially harmful effects of minimum wages to those who see them as self-evidently beneficial?

Let's start with Dickens. He was no anti-capitalist or advocate of minimum wages to alleviate 19th century British poverty.

Britain had no minimum wage for more than 100 years after Dickens' time. British union officials did not support minimum wages, recognising that they caused a loss of jobs amongst workers on the lowest pay rung and reduced union membership.

Some of the history of minimum wage laws has been truly heinous. One episode in the United States is described by African-American economist Walter Williams.

In 1909, the Brotherhood of Locomotive Firemen called a strike against the Georgia Railroad. They called for the complete elimination of blacks from the employment rolls. Instead the arbitration boards decided that black firemen, hostlers, and hostlers' helpers should be paid wages equal to the wages of white men doing the same job. The white unionists were delighted with the decision; they said, "If this course of action is followed by the company and the incentive for employing the Negro thus removed, the strike will not have been in vain."

South Africa under apartheid made the most widespread use of minimum wage legislation. The Wage Act of 1925, by applying the 'standard rate' to spheres of employment where no labour unions existed, sought to help the poor whites by restricting non-white competition. The Act's wording was rich in humbug about non-discrimination, and its sponsors claimed to be protecting the 'higher civilisation', as well as preventing 'sweating' and encouraging efficiency through higher earnings. The effect of course was to deny jobs to many black workers.

An equally shocking episode was the Australian Northern Territory Cattle Industry Case in 1965-66.

The Northern Australian Workers' Union sought to have aboriginal station workers paid the same as white workers. Many witnesses warned that if equal pay were suddenly awarded to Aborigines, most of whom were illiterate and semi-tribal, the pastoralists would replace Aborigines with whites.

The presiding judge Kirby who decided in favour of equal pay told his biographer that the case would "be seen as the greatest contribution he and other members of the Commission made to Australian society." Yet the result was a disaster for affected aboriginal communities, involving massive job losses and, for many, a life on welfare payments and alcohol.

The US Minimum Wage Study Commission found that the 46% rise in the minimum wage between 1977 and 1981 destroyed 644,000 jobs among teenagers alone.

It concluded: "The evidence is now in, and the findings of dozens of major economic studies show that the damage done by the minimum wage has been far more severe than even the critics ... predicted."

In economics as in any science there can be contradictory studies, and a handful have not supported the consensus on minimum wage laws. But the consensus is very broad: wages set above market rates disadvantage the groups they aim to help, such as young people, women, ethnic groups and the disabled.

The outcomes take the form not only of employment losses but also less favourable working conditions and fringe benefits, less on-the-job training, greater difficulties for firms and regions already struggling and political pressure for ineffective make-work schemes.

Employers cannot pay workers more than their productivity – their value to the firm – warrants, or they will lose money.

Those who find it hard to envisage a world without statutory wage floors might note that a number of countries do not have them. They include Norway, Italy, Sweden, Switzerland and Germany (apart from a few occupations). We hardly think of working conditions in these countries as Dickensian.

Other countries are cautious about where they set minimum wages. The federal minimum wage in the United States is US\$7.50/hour (or about \$9.90 at the average exchange rate for the last 12 months), well below New Zealand's rate of \$13/hour (which the Labour Party proposes to raise to \$15/hour).

Tragically, New Zealand is yet another case study of the folly of setting minimum wages at excessive levels. With the abolition of youth minimum rates, 45% of New Zealand's total unemployed are now young people, the highest proportion of any country in the OECD.

I can understand why a young expatriate New Zealander recently gave a speech, *No Country for Young Men* (or women).

Roger Kerr is the executive director of the New Zealand Business Roundtable. Check out his blog on www.nzbr.org.nz