

Legislating Black Unemployment

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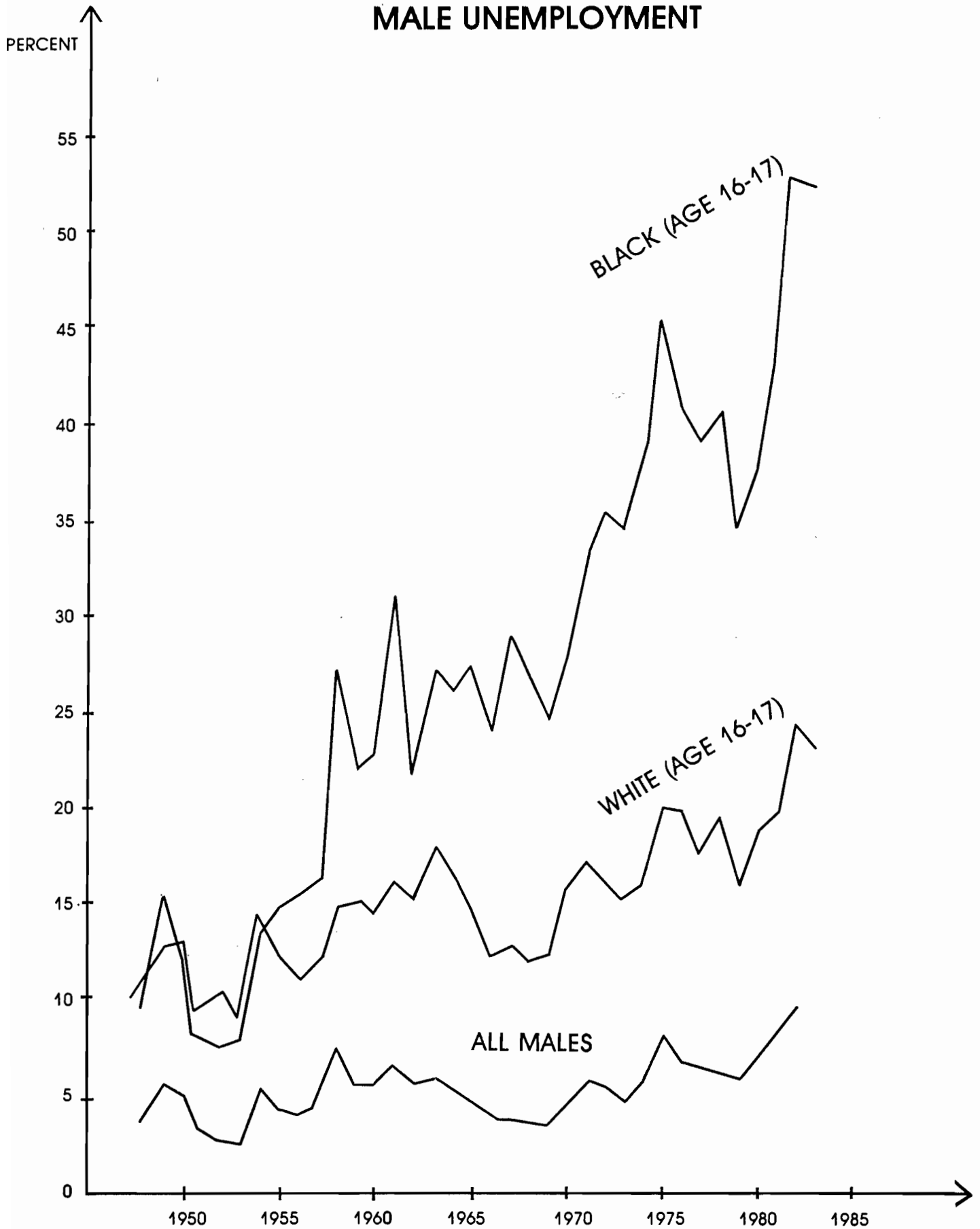
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MALE UNEMPLOYMENT



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LEGISLATING BLACK UNEMPLOYMENT¹

The federal minimum wage law is having a devastating effect upon black Americans, particularly on black teenagers. The minimum wage law is one of the major causes of spiraling unemployment among young blacks and of the troubling tendency for many black teenagers to simply drop out of the labor market altogether:²

- For the last two years, roughly half of all black teenagers in the labor market have been unemployed.
- The labor force participation rate for black males, age 18-19, is only 77 percent of the rate for whites.
- The labor force participation rate for black males, age 16-17, is only 53 percent of the rate for whites.

On several occasions, the effect of minimum wages on youth employment has been recognized and a bill creating a subminimum wage for teenagers has been proposed. A subminimum wage law would permit, but not require, employers to pay teenagers a certain percentage of the adult minimum wage. A lower wage would be paid in recognition of the teenagers' lower productivity. The Reagan Administration has proposed a subminimum wage that is 75 percent of the adult minimum, or \$2.50 per hour. This is a step in the right direction. It would be better if the minimum wage were abolished altogether.

The minimum wage law has imposed incalculable harm on the most disadvantaged members of our society. The absence of work opportunities for many youngsters does not mean only an absence of pocket money. Early work opportunities provide much more. They teach youngsters how to find a job. They teach them work attitudes. They teach the importance of punctuality and respect for supervision. These things learned in any job make a person a more valuable worker in the future. Furthermore, early work experiences give youngsters the pride and self-respect that comes from being financially independent. All the benefits of early work experiences are even more important for black youngsters, who go to the nation's worst schools. If they are to learn something that will make them more valuable in the future, they must learn it in the job market.

Since the minimum wage law does incalculable harm to the nation's youth, we should repeal it with all deliberate speed.

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1. Earlier versions of this study appeared in Walter Williams' The State Against Blacks (New York: McGraw-Hill, 1982), Chapter 3; and Walter Williams' "Minimum Wage - Maximum Folly and Demagoguery," The Journal of the Institute for Socioeconomic Studies (Winter 1983-84), pp. 22-34.
 2. Statistics provided by the Bureau of Labor Statistics, U.S. Department of Labor. The labor force participation rate is the percent working or looking for a job (full or part-time).

Effects on Labor Market

The Fair Labor Standards Act was adopted by Congress in 1938. The Act has been amended many times to increase the number of employees under its coverage and to increase the legal minimum wage. The most recent amendment provided for the current minimum hourly wage of \$3.35. Federal minimum wage laws are acts of government intervention in the labor market intended to raise wages to a higher level than would have occurred with free market forces.

Legislative bodies have the power to legislate a wage increase, but they have not found a way to legislate worker productivity increases. While Congress can legislate the price of a labor transaction, it cannot require that the transaction actually be made. That is, they can dictate what minimum wage must be paid to a person when hired but cannot dictate that the person be hired in the first place. To the extent that the minimum wage law raises the pay level to exceed the productivity of some workers, employers predictably will cut back on their use of labor. The adverse effects are borne by workers who are most disadvantaged in terms of their marketable skills -- workers who will lose their jobs and income or who won't be hired in the first place.

The adverse effects of the minimum wage law also are clear if we put ourselves in the place of an employer and ask: If a wage of \$3.35 per hour must be paid no matter who is hired, what kind of worker is it best to hire? The answer, in terms of economic efficiency, is to hire workers whose productivity is the closest to \$3.35 per hour. If such workers are not available, it does not pay the firm to hire workers whose output is, say, \$2 per hour. Even if the employer were willing to train a worker, the fact that the worker must be paid a wage higher than the market value of his output plus the cost of training him makes hiring him an unattractive proposition.³

Minimum wages cause employers to make certain kinds of substitutions: machines for labor, changes in production techniques, and elimination of some jobs altogether. Each of these substitutions reduces job opportunities for workers.

The substitution of automatic dishwashers for hand-washing and automatic tomato-picking machines for manual labor are examples of the substitution of machines for labor in response to higher wages. The switch from checkout ladies behind every counter in five-and-dime stores to cashiers and the switch from waiter-served restaurants to fast food restaurants are examples of changes in production techniques in response to higher wages. The absence of movie theater ushers and the wide use of plastic utensils and paperware in restaurants are examples of job elimination in response to higher wages.

These are all possible and predictable responses to increases in the minimum wage law. In each case, employers economize on the use of labor.

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3. It is important to note that most people acquire work skills by working at a "subnormal wage," which amounts to the same thing as paying to learn. For example, inexperienced doctors (interns) during their training, work at wages which are a tiny fraction of the wages of trained doctors. College students forego considerable amounts of money in the form of tuition and income so they may develop marketable skills.

Effects on Teenagers

Who bears the burden of the minimum wage? The workers who bear the heaviest burden are those perceived by employers as being less productive or more costly to employ than other workers. In the U.S. there are at least two segments of the labor force that possess these characteristics to a greater extent than other segments of the labor force. The first group consists of youths in general. They are low-skilled or marginal because of their age, immaturity and lack of work experience. The second group, which contains members of the first group, are racial minorities such as blacks and Hispanics, who, as a result of racial discrimination and a number of other socioeconomic factors, are disproportionately represented among low-skilled workers.

When wages that exceed the productivity of some workers are mandated, firms will make adjustments in their use of labor. One adjustment is to hire fewer youths, and to seek among those youths hired the more highly qualified individuals. It turns out that because of a number of socioeconomic factors white youths, more often than black youths, have higher levels of education and training.⁴ Therefore, any law that discriminates against low-skilled people can be expected to confer a disproportionate burden on black youths compared to white youths.

It is no accident that teenagers in general, and black teenagers in particular, are disproportionately represented in the unemployment statistics:⁵

- Youth unemployment, even during relatively prosperous times, ranges from two to three times higher than that of the general labor force.
- Black youth unemployment ranges from three to five times higher than that of the general labor force.
- Black youth unemployment for more than a decade has ranged from two to three times higher than the unemployment rate for white youths.

Although most people are familiar with recent statistics on black youth unemployment, not many are aware of what the picture looked like only a few decades ago.⁶

4. Census data reveal a remarkable closing of the educational gap, measured in median years of education, between blacks and whites. In fact, the difference is negligible, with median years for blacks 12.2 and 12.5 for whites. However, possession of a high school diploma is not synonymous with the ability to read, write and perform simple numerical calculations. The Coleman report said that blacks at grade 12 lagged three to five years behind whites on academic achievement.

5. See Williams, The State Against Blacks, Tables 2 and 3, pp. 37-38.

6. Ibid.

- In 1948, black teenage unemployment was roughly the same as white teenage unemployment.
- Among 16-17 year olds, black unemployment in 1948 was actually less than white unemployment -- 9.4 percent, compared to 10.2 percent among whites.
- During the same period, black youths were just as active as white youths in the labor market.

Things began to change in the mid-1950s. From that point forward, we experienced a steady rise in black youth unemployment relative to white youth unemployment. We also experienced a steady fall in black youth labor force participation relative to white youth labor force participation. In other words, black youths had been finding it increasingly difficult to find jobs, and were increasingly prone to dropping out of the labor market altogether. These trends coincided with two others: steady increases in the minimum wage and ever-expanding coverage of the law to include more sectors of the labor market.

Effects on Young Adults

In an earlier era, workers in their early twenties relied on skills they acquired during their teenage years. These were skills acquired through schooling and/or skills developed on the job while working in the labor market. For a significant part of the young black population, this may no longer be true. Today we face the prospect that many young blacks may reach the age of 20 without ever acquiring any job skills because they were priced out of the labor market during their teenage years. In this way, the effects of the minimum wage law undoubtedly can carry over to affect young black adults.

These considerations may help explain perplexing changes occurring in the labor market for young adults:⁷

- In 1970, the labor force participation rate of black men, age 20-24, was slightly higher than that of their white male counterparts. By 1980, the black participation rate had fallen to 90 percent of whites.
- In 1970, the unemployment rate for black men, age 20-24, was 62 percent higher than the unemployment rate of their white counterparts. By the end of the decade, the black unemployment rate was 130 percent higher.

IGNORING \$17 MILLION WORTH OF RESEARCH

While there is considerable debate about the minimum wage law in the economics profession, none of that debate is over whether the minimum wage causes unemployment for some people. It does. The debate is over the magnitude of the

7. See Williams, The State Against Blacks, Tables 2 and 3, pp. 37-38.

law's effects, the time lags involved, the variables which should be included in the analysis, and the statistical techniques that should be employed.⁸

The views of economists are reflected in a little-publicized seven-volume report released by the U.S. Minimum Wage Study Commission. The Commission was created by Congress in 1977 during the height of debate over proposed amendments to the Fair Labor Standards Act of 1938. The Commission was intended to "help resolve the many controversial issues that have surrounded the Federal minimum wage." The Commission spent \$17 million for professional staff and outside researchers.⁹

Virtually all of the professional studies ordered by the Commission reported that the minimum wage law increases unemployment for certain demographic groups, particularly teenagers. The academic economists hired by the Commission merely confirmed what has long been an overwhelming consensus.

Almost any economics textbook contains a few statements about minimum wage legislation. The judgments stated are invariably to the effect that minimum wage laws reduce employment for low-skilled people. These economics texts demonstrate the professional convictions of economic giants (past and present) such as Paul Samuelson,¹⁰ Armen Alchian and William Allen,¹¹ John Stuart

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8. See David E. Haun, "Minimum Wages, Factor Substitution, and the Marginal Producer," Quarterly Journal of Economics (August 1965), pp. 478-86; Yale Brozen, "The Effect of Statutory Minimum Wages on Teenage Employment," Journal of Law and Economics (April 1969), pp. 109-22; Marvin Kesters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," American Economic Review (June 1972), pp. 323-32; William G. Bowen and T. Aldrich Finegan, The Economics of Labor Force Participation (Princeton University Press, 1969); Edmund S. Phelps, Inflationary Policy and Unemployment Theory (New York: W.W. Norton and Co., 1972); Arthur F. Burns, The Management of Prosperity (New York: Columbia University Press, 1966); Thomas G. Moore, "The Effect of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy (July/August 1971), pp. 897-902; James F. Ragan, Jr., "Minimum Wages and the Youth Labor Market," The Review of Economics and Statistics (May 1977), pp. 129-36; Martin Feldstein, "The Economics of the New Unemployment," The Public Interest (Fall 1973); Andrew Brimmer, Minimum Wage Proposals, Labor Costs, and Employment Opportunities in the Nation's Capitol (Brimmer & Co., Inc., 1978), demonstrates the adverse employment and business migration effects of the minimum wage law in Washington, D.C.
 9. For more detail on the Commission, see Simon Rottenberg, "On the Irrelevance of Economics in Informing Policy," University of Massachusetts, 1982, unpublished manuscript.
 10. Paul Samuelson, Economics (New York: McGraw-Hill Book Co., 1980), pp. 369-370.
 11. Armen Alchian and William Allen, University Economics (Belmont, Calif.: Wadsworth, 1964), pp. 485-486.

Mill,¹² and George Stigler.¹³ There are literally hundreds of articles in professional journals reflecting the general consensus among economists about the minimum wage law.¹⁴

Having paid \$17 million for valuable advice from the experts, the politicians on the Commission took no time at all to reject the advice. In a report which was grossly inconsistent with the findings of its staff and their research, the Commission recommended periodic increases in the minimum wage and recommended extending the minimum wage to include sectors of the economy not then covered.¹⁵

According to Professor Simon Rottenberg, who did an extensive review of the Commission report, the outcome of the findings were predetermined by the political makeup of the Commission. This is most apparent in the additional, individual views of the Commission chairman who said, in response to staff recommendations for a subminimum wage, "I believe that the payment of subminimum wage to a particular age group is so in conflict with . . . the requirements of social justice that it ought to be rejected as a policy option even if it would substantially reduce youth unemployment."¹⁶

THE MINIMUM WAGE AND RACIAL DISCRIMINATION

Suppose that an employer has a personal preference for white employees over black employees. And assume the employees from which he chooses (blacks and whites) are identical in their productivity. If there is a law which requires that employer to pay the same wage no matter who is hired, what are his incentives? He must pay the black \$3.35 per hour and he must pay the white \$3.35 per hour. Yet, he must find some basis for making his choice. The minimum wage law says that his choice will not be based on economic criteria; therefore, it must be based on noneconomic criteria. Race is a noneconomic criterion. If he wishes, the employer can discriminate against the black worker at zero cost.

12. J.S. Mill, Principles of Political Economy (Boston: Little & Brown, 1848), Vol. 1, pp. 430-432.

13. George J. Stigler, "The Economics of Minimum Wage Legislation," American Economic Review (June 1946), pp. 358-365.

14. A small sample of widely used college texts reflecting this consensus are: Roger N. Waud, Economics, 2nd ed. (New York: Harper & Row, 1983), p. 731; Richard G. Lipsey and Peter O. Stienner, Economics, 6th ed. (New York: Harper & Row, 1981), p. 358; Elbert V. Bowden, Principles of Economics, 4th ed. (Cincinnati: South-Western Publishing Co., 1983), p. 502; William J. Baumol and Alan S. Binder, Economics, 2nd ed. (New York: Harcourt Brace Jovanovich, Inc., 1982), pp. 617, 625-626; and Edwin G. Dolan, Basic Macroeconomics, 3rd ed. (New York: The Dryden Press, 1983), p. 386.

15. See Rottenberg, op. cit., p. 19.

16. U.S. Minimum Wage Study Commission, Report, Vol. 1, p. 180.

If there were no minimum wage and the black was willing to work for a lower wage, say \$2 per hour, it would have cost the employer to exercise discrimination. In this example, it would have cost him \$1.35 per hour, the difference between the minimum wage and \$2 per hour. In this way, the market would penalize the employer who chooses employees on market-irrelevant criteria.

There would be some employers who would hire blacks at the lower wage. Doing so and hence experiencing lower production costs, these firms would reap supernormal profits. These firms would be able to underprice the racially discriminating firms, thereby capturing a greater share of the market, making greater profits, and attracting more investors. In addition, new firms probably would be enticed by the profits and enter the scene. In their attempt to secure the cheaper black labor, they would offer higher wages. The ultimate effect would be wage equality between blacks and whites, brought about by market forces.

This line of reasoning is given additional weight when we consider black employment during hostile times. Ironically, during "relatively unenlightened" times, black unemployment was lower and black labor force participation rates were higher than they are today. In 1910, for example, 71 percent of blacks over nine years of age were employed, compared with 51 percent for whites.¹⁷ Chinese were discriminated against, but they were employed building the railroads of the West. Neither phenomenon can be explained by racial likes or dislikes. The willingness to work for lower wages explains both.

The notion that it is sometimes necessary for individuals to lower their price in order that a business transaction occur offends the sensibilities of many people. These people support the minimum wage law as a matter of moral conviction, motivated by a concern for equity in the distribution of wealth. However, white racist unions in South Africa also have been supporters of minimum wage laws and equal-pay-for-equal-work laws for blacks, but they have done so for very different reasons.

South African Labor Laws

Provocative evidence of the real consequences of the minimum wage is suggested by the fact that South Africa's racist labor unions, which would never consider having blacks as members, are major supporters of South African minimum wage laws. Over recent years, job reservation laws, i.e., reserving certain jobs for whites only, have been breaking down and losing their effectiveness. One reason is that white employers have been disobeying the law and illegally hiring blacks. Employers have continually sought outright repeal or exemption from job reservation laws for economic reasons.

Massive evasion of job reservation laws also has been accomplished through employers changing job titles to those not covered by the law, so that blacks can be hired. These measures by employers cannot be explained by racial benevolence. South Africa, over the last several decades, has experienced considerable economic growth. The whites-only policy had driven up labor prices so dramatically that employers seek other sources of labor.

17. See U.S. Bureau of the Census, Negro Population 1790-1950 (Washington, D.C., 1918), pp. 166, 503-504.

In response, right-wing unionists have abandoned their support for job reservation laws and pushed for minimum wage laws instead. Gert Beetge, secretary of the racist Construction Workers Union and a supporter of the extremist National Party of South Africa, put it this way: "There is no job reservation left in the building industry and, in the circumstances, I support the rate-for-the-job (the name of South Africa's minimum wage law) as the second best way of protecting our white artisans."¹⁸ The Star, a conservative newspaper of South Africa, said, "Grabbing at loopholes in the labour laws has reached the stage now where most new houses are built almost entirely by (black) Africans. White builders are fast becoming something of the past. Even inspectors from the Department of Labour have thrown up their hands in despair and turned a blind eye to blatant contraventions."¹⁹ Beetge, a year later, said he would be willing to allow black workers into the building industry if minimum wages were raised from 1.40 Rand to 2.00 Rand per hour and if the law were strictly enforced.²⁰

The reason why South Africa's racist unions support wage minima is that, for the most part, black South Africans are low-skilled. In order for it to be economically profitable for employers to hire and train low-skilled workers, they must be able to pay them lower wages.²¹ The racist unionists know that if employers are compelled to pay low-skilled workers higher wages, or wages equivalent to that received by white workers, it will reduce employer incentive to hire blacks.

Labor Union Strategies in the U.S.

South African unions are not unique in their efforts to use economics to reduce or forestall the entry of minorities into various job markets. American unions have gone through a similar change in philosophy: first preferring exclusion, then attempting to raise their competitors' wages where exclusionary devices have failed.

American unions have always been against migration and competition. At the turn of the century, they were against Oriental migration to the United States. Samuel Gompers, founder of the American Federation of Labor, believed "The maintenance of the nation depends upon the maintenance of racial purity and strength." Gompers' sentiments concerning Orientals is best expressed in his pamphlet entitled, "Some Reasons for Chinese Exclusion: Meat vs. Rice, American Manhood Against Coolieism—Which Shall Survive."²²

18. "Rightest South African Unions Assail Racial Job Curb," New York Times, November 29, 1972, p. 3.

19. "Integration in Labour," The Star, Johannesburg, February 8, 1971.

20. "Integration in Labour," Rand Daily Mail, Johannesburg, October 5, 1973.

21. This practice by itself does not differ significantly from what we see everywhere. Hospitals must be able to pay low-skill doctors (i.e., interns) lower wages to reflect training costs and the interns' lower productivity.

22. See Herbert Hill, "The Racial Prejudices of Organized Labor," in Employment, Race and Poverty, Arthur Ross and Herbert Hill, eds. (New York: Harcourt, Brace & World, 1967), pp. 390-391.

In 1909, the Brotherhood of Locomotive Firemen engaged in a bitter strike against the Georgia Railroad. Property destruction, murder and intimidation of blacks were all the order of the day. The Brotherhood wanted the elimination of blacks, who then constituted 90 percent of firemen and hostlers on some southern railroads. The arbitration board could not legislate that blacks be fired, so it settled on an equal pay agreement. The Brotherhood of Locomotive Firemen expressed delight with this decision, saying, "If this course is followed by the company and the incentive for employing Negroes is thus removed, the strike will not have been in vain."²³

Recent union support for minimum wage laws purportedly has nobler intentions. However, when we evaluate policy, intentions are not very important. We must look to the effects of policy. Effects are independent of, and may bear no relation to, policy intentions. Despite the different intentions, minimum wages in South Africa and the United States have an identical effect: unemployment for the least preferred worker, whether he is less preferred because of race, sex, religion, nationality or skill.

Davis-Bacon Act

Since the turn of the century, unions have given relentless support -- including billions of dollars for lobbying -- to assure a mandated minimum wage. Support of the Davis-Bacon Act has been a notable part of that effort. The Davis-Bacon Act, enacted on March 31, 1931, is a "super" minimum wage law. It was written for the purpose of protecting local, mostly union workers on Federal construction projects from competition with lower-paid, nonlocal labor.

The requirements of the Act are that all workers on federally financed or assisted construction projects be paid the prevailing wage. The Act requires the Secretary of Labor to make wage determinations. Contrary to the requirements of the Act, the Secretary of Labor usually determines that the "prevailing wage" is the union wage or higher.

The economic effect of the Davis-Bacon Act is to discriminate against the employment of nonunion labor on federally financed or assisted construction projects. To the extent the overwhelming majority of minority workers in the construction industry are in the lower-skilled, nonunion sector, the Davis-Bacon Act also discriminates against blacks.

The racial effects of the Davis-Bacon Act were anticipated by its designers, with considerable union support. There were many allusions to racial bigotry during the 1931 House debate on the Act. Said Congressman Miles Clayton Allgood (D-Ala.), "That contractor has cheap colored labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country."²⁴ Nowadays, the rhetoric in support of the Davis-Bacon

23. Charles H. Houston, "Foul Employment Practices on the Rails," Crisis (October 1949), pp. 269-284. See also Walter E. Williams op. cit., Chapter 6.

24. U.S. House of Representatives, Congressional Record, 71st Congress, 3rd Session, 1931, p. 6513.

Act, and against any kind of Federal construction being exempted from its provisions, has changed.²⁵ Nonetheless, Davis-Bacon continues to have a devastating effect on black employment opportunities, particularly in federally financed commercial construction.

In addition to unions, businesses also have sought protection from competition by way of the minimum wage law. President John F. Kennedy, when he was a senator, supported increases in the minimum wage law as a way of protecting New England industry from competition with southern industry.²⁶ Farmers have supported agricultural minimum wage laws in order to reduce competition. A particularly insightful comment was made by Congressman Joseph Y. Resnick:

"Mr. Chairman, I would like to point out to all the members of the Northeast and from the city what this legislation means to them. For one thing, Mr. Chairman, it means that the farmers of the Northeast can compete fairly with farmers from the rest of the country.

"Now, Mr. Chairman, we have poultry farmers in our part of the country. Our farmers pay anywhere from \$1.25 to \$1.75 an hour for help. I ask you, how can they compete with poultry farmers in Mississippi who pay \$3 a day for a ten-hour day?"²⁷

There are numerous examples of business interests that are served by minimum wages. Surely included among them are businessmen's past interest in having U.S. minimum wage laws applied to U.S. territories and Puerto Rico. The underlying drive of businessmen in their support for the minimum wage law was to reduce the competition they would face from lower-wage areas. The minimum wage law gets very little political support from the low-wage states, mostly in the South.

LABOR MARKET MYTHS

Before concluding our discussion of the minimum wage, we should comment on several widely accepted labor market myths.

Myth No. 1: If teenagers are allowed to work at subminimum wages, they will be employed while their parents go unemployed. This statement is an example of what economists call the "lump of labor fallacy." The statement assumes that there is a finite number of jobs available, and that the acquisition of one job by one person means that another person will lose his/her job. There is no evidence to support such a contention. The number of people holding jobs grew from less than

25. Numerous amendments to the Davis-Bacon Act, which would have exempted construction on Indian reservations, low-income housing construction and housing rehabilitation, have been defeated.

26. John F. Kennedy, "New England and the South: The Struggle for Industry," Atlantic Monthly, (January 1954), p. 33.

27. Congressional Record, May 25, 1966, p. 11383.

one million during colonial times to nearly 100 million today. All evidence suggests this trend will continue. The overwhelming effect of subminimum wages would be to increase employment.

Myth No. 2: The employment problem faced by youths and others is that there are simply no jobs available. The quantity of labor employed, just as any other thing of value, conforms to the law of demand: The higher its price the less it is used, and vice versa. The truth behind Myth No. 2 is that at some particular wage there are no jobs available. At some particular wage everyone will find that his/her labor is not demanded. For example, if a writer informed his employer that the minimum wage he was willing to work for was \$200,000 per year, there probably would be no job available. This principle applies to any worker. The only difference is that the wage that would cause some people to be unemployed is higher than that which would cause other people to be unemployed.

Myth No. 3: Many people are unemployed because they are low-skilled and have few qualifications. Low skills explain low wages, but low skills cannot explain unemployment. A person is qualified or unqualified only in a relative sense -- relative to some wage. To speak of qualifications or skills in an absolute sense has little meaning. For example, a carpenter who is qualified, and hence employable at a wage of \$4 per hour, may be unqualified, and hence unemployable, at a wage of \$10 per hour. This applies to everything. A Sears suit is "unqualified" to sell for the same price as a tailored Pierre Cardin suit.

Frequently, it is said that minorities have a high unemployment rate because of their low skills. How can this statement be reconciled with the fact that in earlier times minorities had lower unemployment rates? Few people would be prepared to argue that blacks during earlier times had more education and training than blacks in present times and that is why they had higher employment rates. No, the real reason is that through political mechanisms (perhaps without intent) many blacks have been artificially disqualified.

Myth No. 4: High youth unemployment reflects the "baby boom" of the post-World War II era. This myth reflects a misunderstanding of the basic law of supply and demand. Given a demand, an increased supply of labor (or for that matter anything else) results in lower prices in a free market. Unfortunately, the labor market in the United States is not free.

Myth No. 5: Widespread automation is the cause of high unemployment rates among a large sector of the labor force. This myth reflects both a kind of amnesia and the lump of labor fallacy. First, higher wages are the proximate cause of automation. When wages rise relative to capital costs, firms have incentives to substitute capital for labor. For example, when elevator operators negotiated a higher wage, a few years later we saw widespread installation of automatic elevators. After tomato pickers were brought under the minimum wage, we saw the implementation of tomato-picking machines. As grape pickers negotiate higher wages, we are now seeing the transition to grape-picking machines. This myth is the lump of labor fallacy because it asserts that society has no use for the labor displaced by automation.

Myth No. 6: The minimum wage law will give workers increased purchasing power that will sustain high employment. This myth assumes that (1) workers will be able

to keep their jobs and (2) work the same number of hours as before the minimum wage. Some workers will and some will not. The workers who lose their jobs as a result of a hypothetical right to earn \$3.35 will find that hypothetical right will not buy groceries and housing. Furthermore, more wages do not necessarily mean more purchasing power when the artificial wage increases give rise to inflation.

Myth No. 7: The minimum wage law is an antipoverty weapon. If this were true, we would advise countries to raise their minimum wage and have an instant solution to the world's poverty and underdevelopment problems.²⁸ The plain fact of business is that low-skilled workers are not so much underpaid as they are underskilled. The way to help them, as well as poor countries, is to make them more productive. This cannot be done with a stroke of the legislative pen.

These labor market myths have maintained their popularity down through the ages primarily because they have served particular interest groups, many of whom have a legitimate concern for their fellow man. However, truly compassionate policy requires dispassionate analysis. The debunking of these and other labor market myths is an important ingredient toward that end.

For the most part, unions and some businesses support minimum wage laws as a means to greater wealth. But the minimum wage law also receives support from other people who are not similarly motivated. These people support it out of decency and concern for the public welfare, while erroneously believing it to be an antipoverty and social justice tool.

The real problem, both in the U.S. and other countries, is that people are not so much underpaid as they are underskilled. The real task is to make skilled those people who are underskilled. This is not done by merely declaring, "As of January 1, 1981, everybody's productive output is now worth \$3.35 per hour." This makes about as much sense, and accomplishes about as much, as doctors curing patients by merely declaring that they are cured.

Note: Nothing written here is to be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder passage of any bill before Congress or before any state legislature.

28. If the minimum wage law were an effective anti-poverty tool, we could eliminate world poverty by proposing that poor nations enact a minimum wage law of say, \$5, \$10 or \$20 per hour.