McGarrity: How important is the minimum - Log Cabin Democrat (Conway, AR) - March 6, 2015 - page 1 March 6, 2015 | Log Cabin Democrat (Conway, AR)

Arkansas increased its minimum wage to $7.50 an hour this year and it is scheduled to increase its minimum wage to $8.50 in two years. During the debate over the merits of raising the minimum wage, one popular narrative was that workers needed the government to protect them from firms, which want to pay them very low wages. This narrative misrepresents the most important dynamic that protects workers. Workers are protected mostly by the competition among firms to hire workers.

As with most misleading stories, the popular narrative had elements of the truth in it. Of course, firms want to pay their workers very low wages, which allows them to keep costs down, making it easier to turn a profit.
In the absence of a minimum wage law, Walmart would love to be able to pay its workers $2 an hour. However, at this low wage, Walmart and many other firms will find that they can increase their profit by hiring a lot of workers. At this low wage, there will not be enough workers to go around. A company like Lowes will offer workers $3 an hour if they leave Walmart and come work at Lowes. Lowes will agree to this wage hike for seemingly selfish reasons. Lowes can earn a profit by hiring these workers at $3. Walmart workers will not be impressed with Walmart's $2 wage, so they will take the job offering a higher wage. Left without enough workers, Walmart will have to raise its wage, to say $4, to convince workers to leave Lowes and come to work at Walmart. Companies have an incentive to keep increasing their wages until they can get all of the workers that they want. Or put another way, a company will increase its wages as long as the higher wages enable it to increase its profit by hiring more workers.

People who cover economic news should not put too much weight on the fact that firms want to pay low wages. Competition among firms for workers limits how low the wage can get. There is a similar motive by workers that commentators have the good sense to downplay or even ignore. Self-interested workers want to get paid as much as possible. The workers at Walmart want to earn $50 an hour, which can work out to a $100,000 a year salary. If it had no other options, Walmart might even pay some workers this really high salary. However, at this wage, a lot of people would want to work, but many would be unable to find jobs. An unemployed person may go to Walmart and offer to work for $40 an hour. In response, Walmart would let go the person earning $50 an hour and hire the cheaper worker. However, at $40 an hour, there would still be a

lot of people looking for work. Unemployed workers will continue to show up offering to work for lower wages. In response, firms will continue to drop their wages as long as they can hire enough people at the wages that they offer.

In sum, firms want to pay very low wages but cannot because competition by firms for workers drives up the wage. In a similar manner, workers want to earn enormous salaries but they cannot because competition for jobs among workers drives down the wage that firms have to pay.

The competition for jobs and for workers, which determines the going wages, can be influenced by fluctuations in the economy. We have just come out of an abnormally bad economic time period and care should be taken not to consider recent times as the norm. During the recession that started in 2008, the unemployment rate got as high as 10 percent. Things only get this bad once every generation or two. As the economy has recovered, the unemployment rate has continued to drop. The unemployment rate dropped to 5.7 percent this January from 6.6 percent in January of 2014. The economy has finally recovered enough so that the unemployment rate has reached a more typical level. Even so, the 5.7 percent unemployment rate is slightly higher than the 5.5 percent average that occurred between 1990 and 2008.

Even at the current unemployment rate, which is not great by recent standards, firms have started to increase their wages in order to attract more workers. Walmart will pay its workers at least $9 starting in April and increase its starting salary to $10 next year. Panera Bread and many other firms have also started increasing their wages to attract enough workers. These higher wages are not the result of a government mandate like minimum wage. Rather, these wage hikes are the result of profit seeking firms just trying to get enough workers.

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