What Does It Take to Make a Living Wage?

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Recently, I was asked by Nebraska Appleseed to write an opinion piece regarding a proposal to raise the Nebraska minimum wage. I immediately contacted my old friend John Kretzschmar, the Founding Director of the William Brennan Institute for Labor Studies at the University of Nebraska. He's spent a career dealing with the status of American workers and is far more knowledgeable than me. Together, we put together an article that appeared in the Omaha World-Herald. There's a link to the actual article below.

In the meantime, there's plenty about the minimum wage that simply couldn't be included in the paper because of space limitations. So here's some additional information.

First, the national minimum wage has been in place ever since the Federal Government instituted it in 1938 at a whopping 25 cents an hour. And ever since, its detractors have been trying to convince us that it's all some sort of communist plot.

Their thinking goes something like this. If employers have to pay their workers a little more, they'll either have to fire some of them or not hire anyone else. In other words, you can't raise wages and maintain profits.

It sounds plausible, but in each of the instances the minimum wage has been increased, no one has demonstrated any sort of consistent adverse effect on employment, incomes, or other major economic factors.

Every economic change, whether public or private, has winners and losers (just ask anyone who used to work at Sears, K-Mart, or Toys-R-Us). Short term, some jobs transition. The long-term consequences are usually different. And no one has been able to clearly demonstrate that increasing the minimum wage, or for that matter, even having a minimum wage in the first place, has had a negative effect on the economy.

But isn't raising wages substantially something that's bad for business? Is it even possible for a business to increase wages and increase profits at the same time?

History says yes. Enter the picture, Henry Ford.

In 1914, Ford shocked the world when the company announced that it was doubling the salary of its workers. That's right, doubling—as in a 100% raise.

In Ford's words "It is our belief that social justice begins at home. We want those who have helped us to produce this great institution and are helping to maintain it to share our prosperity. We want them to have present profits and future prospects. ... Believing as we do, that a division of our earnings between capital and labor is unequal, we have sought a plan of relief suitable for our business."

The Wall Street Journal, along with several other newspapers, went nuts. Ford had "committed economic blunders, if not crimes," the Journal's editorial page screamed. The conventional wisdom was that Ford would be bankrupt within a year.

Instead, the opposite happened. Turnover at Ford factories fell sharply, reducing training costs. Ford workers poured more money into the local economy. And many of them bought cars themselves—Fords.

Within two years, Ford doubled its profits.

Let's get one thing straight, though. The bit about Ford doing this from a concept of "social justice" is a load of crap. If you look up "nice guy" in the dictionary, Henry Ford's picture won't be there.

He was a bigoted, anti-Semitic racist. He even purchased his own newspaper, The Dearborn Independent, to spread his racist views. He hated the prospect of his workers organizing, and hired Harry Bennett, once described as "America's most reviled corporate thug" to ambush, beat, and sometimes kill workers who got out of line.

So what was the real reason Henry Ford massively raised wages in 1914? Simple. He knew it would be good for Ford.

Ford's decision proved the fallacy of the "Gee, if we have to raise wages we'll automatically lose money" thinking.

Economics is a complex field, full of human variables. It's not a hard-science, and every honest economist knows this.

A scientist can predict what will happen when two particles collide. But when humans with their own biases collide? That's much less predictable. It's what makes psychology, sociology, and economics more subjective, and in many ways, much more difficult.

And in all my reading, I've yet to find convincing evidence that paying a living wage ends up being an economic negative in the long term.

As a nation, that's where our focus really needs to be. On the future, and not just next quarter's report to corporate shareholders.