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The Complexities of Securing Living Wages for the Working Poor

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Introduction

Income inequality and class exploitation have plagued societies throughout history and have often led to revolution or reform.[1] When minimum wage laws were first enacted in the United States, they were intended to eventually guarantee workers an "honest day's pay" for an "honest day's work." Catholic thinker John Ryan had proposed that workers were entitled to a decent living, what he called a "living wage."[2] Nevertheless, it is obvious that the minimum wage, as it currently exists, is no longer intended to provide workers with an acceptable standard of living.

Most recently, a new "living wage" campaign is being conducted to champion the cause of the working poor. At the core of this effort lies a commitment to substantially raising the minimum wage to levels that would better approximate a "living wage." The hotly contested item is whether or not raising the minimum wage would benefit or hurt the poorest workers. Whereas the optimists believe that raising the minimum wage would increase the workers' wages with little or no detrimental effects, critics claim that the mandated higher level of wages would cause unemployment. In this paper, I will not take up this issue *per se*. Instead, I would argue that the desired result of raising the disposable income of poor workers cannot be achieved merely through the minimum wage, for the issue is much too complex to be alleviated through legislation alone. In effect, the wages of poor workers can only be raised if some type of multi-faceted approach is implemented, especially if the goal is to see these wage increases come from

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[1] Terry Boswell and Christopher Chase-Dunn, *The Spiral of Capitalism and Socialism: Toward Global Democracy* (Boulder, CO: Lynne Rienner Publishers, 2000), 52.
[2] Ryan, *Economic Justice: Selections from "Distributive Justice" and "A Living Wage,"* ed. Harlan R. Beckley (Louisville, KY: Westminster John Knox Press, 1996).

corporate profits, since there are various ways that corporations can maintain their profit margins.

Measuring the Economy

The first difficulty that is encountered in formulating living wage policy is being able to accurately predict the precise effects that might follow a particular measure. Virtually all of the crucial studies which have been conducted (e.g. Card and Krueger, Baltimore Case, etc.) are disputed from both sides. The reasons for these discrepancies are several. For one thing, the statistics used in studies are often incomplete. For example, Marvin H. Kosters indicates that average hourly earnings statistics often do not include cash payments, e.g. bonuses, profit sharing, etc. Therefore, it is many times difficult to accurately measure average hourly earnings.[3] Furthermore, the lack of information often leads to comparisons which do not consistently use the same set of criteria. Kosters points out that analysts often use different price indexes to measure real output and real wages, making it impossible to draw any substantive conclusions about their relationship.[4]

The economy is difficult to accurately predict, partly because it is multi-faceted. Even though economists may characterize the economy according to general categories (e.g. supply and demand), each of these categories exists in varying forms and degrees. For instance, demand can refer to the demand for a product, the demand for workers, or the demand for capital, and each of these operates on a number of levels. Economic analysis is further complicated by the fact that the economy is not static, but is in a constant state of flux. At each moment in time the conditions are changing, so the best that can be asserted is that such and such will happen under

[3] Kosters, *Wage Levels and Inequality: Measuring and Interpreting the Trends* (Washington, D.C.: American Enterprise Institute Pres, 1998), 11.
[4] Kosters, 23.

a particular set of conditions. Predictions become increasingly complex as more and more variables are taken into account. Even more difficult is the attempt to isolate one variable from the rest, as studies have often tried to do with the minimum wage.

There is even some question as to how accurate economic categorization can be since so many economic factors vary in degree. For example, it can be said that the gap between rich and poor in the U.S. is widening. In general, this statement is completely true, but it can be construed in misleading ways, for statistics show that the wages of workers in both groups are becoming more widely dispersed.[5] As such, the gap can be quite narrow or quite large, depending upon the subjects which are being contrasted. This is just one example of the difficulties that are faced in attempting to measure the state of the economy. Prediction is even more precarious.

Options Exercised by Corporations to Counter Living Wage Mandates

The working poor will not be helped through minimum wage legislation alone, for corporations have several ways to try to offset the loss of profits encountered in the process. First, corporations can simply *fire or lay off workers*. Classical economic theory posits that when the price of low-skilled workers increases (via an increase in the minimum wage), the demand for these workers will decrease. In other words, some of them will get paid more and the rest will lose their jobs.

A study conducted by David Card and Alan Krueger in the late 1980's and early 1990's seems to contradict this theory. They report that an increase in the minimum wage in New Jersey actually increased employment. Living wage advocates like Robert Pollin and Stephanie Luce have been quick to view this study in the most positive light.[6] Skeptics claim that the Card and

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[5] Kosters, 48-9.
[6] Pollin and Luce, *The Living Wage: Building a Fair Economy* (New York: The New Press, 1998), 41.

Krueger study ignores some important details which, when taken into consideration, yield a result more consistent with classical theory. For instance, it is claimed that the study ignores the fact that the hours worked by the average employee decreased, eliminating the possibility that earnings increased through a minimum wage hike. David Neumark and Scott Adams believe that the most recent studies contradict the conclusions reached by Card and Krueger, that in fact an increase in the minimum wage does raise wages but it lowers employment.[7]

Others contend that the fact that unions tend to support minimum wage increases also validates the classical view. Union jobs are most often significantly above the minimum wage, so it does not appear that union members would benefit directly from a minimum wage increase. When the minimum wage is increased, the cost of low-skilled labor increases. Subsequently, the demand for it decreases, and this causes the demand for high-skilled labor to increase. In other words, when employers are forced to pay more for their workers, it is more likely that they will employ those with higher skill levels, getting the most for their money.[8]

David Neumark and William Wascher have attempted to more precisely define the relationship between changes in the minimum wage and the employment rates of those whose hourly rates are near or at the minimum wage. They distinguish two equilibrium points: the competitive equilibrium and the monopsonic equilibrium (i.e. the equilibrium attained when the supply comes from a single source). Obviously, the presence of competition lowers prices in the marketplace. Therefore, the competitive equilibrium will be lower than the monopsonic equilibrium. Neumark and Wascher attempt to show that when the minimum wage is below both equilibrium points (i.e. below the competitive equilibrium, since it is the lower of the two), there

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[7] Neumark and Adams, *Do Living Wage Ordinances Reduce Urban Poverty?*, Working Paper Series No. 7606 (Cambridge, MA: National Bureau of Economic Research, 2000), 8.
[8] David Neumark, Mark Schweitzer, and William Wascher, *The Effects of Minimum Wages Throughout the Wage Distribution*, Working Paper Series No. 7519 (Cambridge, MA: National Bureau of Economic Research, 2000), 26.

are no adverse employment effects, since employers are not forced to pay more than what the market would otherwise demand. However, if the minimum wage is increased to a level between the two equilibrium points (i.e. higher than the competitive and lower than the monopsonic), then employment will essentially trace the labor demand curve and increase. In essence, even though some employers will not want to pay the higher wages, there are some who will still be willing to do so. On the other hand, once the minimum wage is raised above the monopsonic equilibrium (and above the competitive as well), employment will begin to decrease.[9] If their analysis is true, then it is possible that modest increases in the minimum wage may actually increase employment while sizable increases would basically lower it. It all depends where the current minimum wage stands in relation to the market equilibria.

Second, companies are able to offset increased labor costs by *reducing the hours of the employees*. Many times part-time and temporary employees are substituted for full-time, permanent workers.[10] Not only does this reduce the actual wages paid by the employer, but the part-time and temporary workers are almost always ineligible for any other benefits that might be paid to permanent, full-time employees. Moreover, part-time and temporary jobs have very little possibility for upward mobility, so the employer is practically guaranteed of being able to pay the same low wages for a longer period of time, if not indefinitely. Consequently, whenever the minimum wage is increased, this type of worker replacement occurs most often for those earning near the minimum wage. By raising the minimum wage, the workers' hourly wages do increase,

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[9] Neumark and Wascher, *Minimum Wage Effects and Low-Wage Labor Markets: A Disequilibrium Approach*, Working Paper Series No. 4617 (Cambridge, MA: National Bureau of Economic Research, 1994), 27.
[10] David R. Howell, *Institutional Failure and the American Worker: The Collapse of Low-Skill Wages*, Public Policy Brief No. 29 (Annandale-on-Hudson, NY: Jerome Levy Economics Institute, 1997), 34.

but the hours worked decrease (as does the employment level), yielding an overall decrease in income for the low-skilled workers.[11]

Third, companies can offset higher labor costs by *raising prices*. If a substantial, universal minimum wage increase were enacted, the end result could be inflation, and the working poor would not be better off, since the cost of living would increase. This leads to the question as to whether or not minimum wage increases should be accompanied by price freezes. Robert Kagan gives three reasons why implementing an effective price freeze would be difficult. To start, some businesses are much more price sensitive than others. Trying to enforce a stringent price freeze across the board would be unjust to many businesses. However, trying to create an accommodating policy would not be the answer, for it is not clear how it could be applied fairly and firmly. Accommodating policies inevitably have cracks or loopholes, and businesses often find ways to use them to their advantage.

For this reason and others, it would be difficult to regulate a price freeze. Since prices vary at each level of distribution, the effort to control prices would be rather tedious to say the least. Suppliers, distributors, and retailers all adjust their prices for various reasons. The bureaucracy needed to regulate prices would indeed be monstrous. This leads Kagan to conclude that even the regulating agencies would need to be monitored, not only because of the size and complexity of the matter, but also because the possibility of tampering and foul-play would be very great.[12]

Fourth, employers can counter a payroll increase by *demanding higher levels of productivity from their employees*. In fact, when employers have few alternatives, this is precisely what happens. Terry Boswell and Christopher Chase-Dunn point out that in capital-

[11] Neumark, et. al., *The Effects of Minimum Wages*, 27.
[12] Kagan, *Regulatory Justice: Implementing a Wage-Price Freeze* (New York: Russell Sage Foundation, 1978), 8-16.

poor areas, labor costs can only be raised if productivity is raised also. Otherwise, companies relocate to other capital-poor areas.[13]

It has been said that if employers would only pay their workers more, then the workers would be better motivated and productivity would increase. No doubt, increasing the value of a given job will reduce the turn-over of that job. In other words, the employee will be more likely to try to retain that job. This could mean fewer sick days claimed, more effort on the job, etc. Nevertheless, it is also true that when workers feel more secure they might be more likely to cut corners. It is not uncommon to see extended coffee and lunch breaks, computer games, idle conversations (in person or on the phone), increased absences, etc., all of which cut into productivity. While an increase in wages could likely increase the productivity of some workers, it could also decrease the productivity of others.

Finally, production companies can attempt to keep labor costs low by *relocating jobs to low-wage countries*. David Howell says that besides minimum wage increases, the relocation of businesses can also be prompted by technology, unionization, trade, and immigration.[14] As the economy becomes increasingly globalized, the threat of relocation is becoming more impending than ever, since businesses can be moved to a wider variety of places around the world.

The Problem of Low Wages Is Multi-faceted

Complexity of the Situation

As we enter the twenty-first century, the economic picture is becoming increasingly complex, and this poses great difficulties in achieving higher wages for the working poor. Not

[13] Boswell and Chase-Dunn, *The Spiral of Capitalism*, 240.
[14] Howell, 31.

only does living wage legislation need to address the various aspects of the complex economy, it also needs to be able to adapt to the ever-changing economic conditions.

Marvin Kosters documents how the demand for higher-skilled jobs increased sharply in the 1970's and 1980's, even though the supply of higher-skilled workers also increased during the same period. The result was that "an excessive number of less-skilled workers were competing for [low wage] jobs, whose numbers were declining relative to jobs requiring higher skill."[15] He thus believes that the plausible explanation for this shift is a "skill-based technological change."[16] According to Robert M. Hutchens, this shift did not end with the 1980's. "The U.S. occupational structure continues to shift toward jobs that require higher levels of education and cognitive skill."[17]

This indicates the fact that there is a downward pressure on the wages of lower-skilled workers. It is possible that the real wages of such employees could continue to decrease. In fact, one of the largest problems with low-wage jobs today is that they continue to decrease in mobility.[18] No longer is it the case that an employee can expect to start at the bottom and gradually climb to the top. Many are trapped in low-wage jobs indefinitely. Furthermore, there is no indication that the trend toward higher-skilled jobs will not continue. Hutchens notes that not only has the number of skilled jobs increased, the skills required by various jobs have increased as well.[19] It would seem that education and training are a necessary element of a comprehensive living wage program.

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[15] Kosters, 33.
[16] Kosters, 33-4.
[17] Hutchens, *A Path to Good Jobs? Unemployment and Low Wages: The Distribution of Opportunity for Young Unskilled Workers*, Public Policy Brief No. 11 (Annandale-on-Hudson, NY: Jerome Levy Economics Institute, 1994), 9.
[18] Hutchens, 22.
[19] Hutchens, 13.

In the U.S., the problems caused by the technological shift have been exacerbated by the immigration of unskilled workers who must be absorbed into the work force. While technology has been decreasing the demand for low-skilled employees, the supply of them has been bolstered by scores of immigrants. This has caused the wages of unskilled workers to be suppressed while others have been enjoying the benefits of economic growth.[20] Terry Boswell and Christopher Chase-Dunn acknowledge this trend as a chronic problem. "The major source of low-cost labor throughout history has been the movement of peasants and others in less commodified rural areas to wage-work in industrial areas."[21]

In recent times we have been witnessing the modern flip-side to immigration, namely, the relocation of production facilities to low-wage countries. Rather than wait for people to come to the jobs, companies are taking the jobs to the people. This aspect of the gradual globalization of the economy has greatly increased the supply of low-skilled workers. As a result, "downsized skilled workers as well as unskilled and uneducated workers are increasingly competed down."[22] The shift of unskilled work away from the U.S. reinforces the trend caused by the aforementioned technological shift, in which the demand for skilled labor increases while the demand for unskilled labor decreases. Robert C. Feenstra and Gordon H. Hanson show that there is a correlation between the outsourcing of production and increases in the employment of non-production workers, since outsourcing production jobs decreases its demand and increases the demand for non-production jobs as businesses expand through the benefits of lowered production costs.[23]

[20] Howell, 25-6.
[21] Boswell and Chase-Dunn, 253.
[22] Boswell and Chase-Dunn, 235.
[23] Feenstra and Hanson, *Globalization, Outsourcing, and Wage Inequality*, Working Paper Series No. 5424 (Cambridge, MA: National Bureau of Economic Research, 1996), 8.

Nevertheless, the movement of unskilled labor to low-wage countries has not continued to provide a plethora of jobs, since the outsourcing companies have learned to become competitive in producing low-skilled intensive goods. This has had two main effects. First, it has decreased the output of low-skilled intensive goods. Second, it has lowered the demand for low-skilled workers in industrial countries.[24] For years, American workers were able to maintain a significant advantage over other workers by maintaining a much higher level of productivity. This advantage has been all but lost as workers in low-wage countries have become much more productive in recent years. Low-skilled American workers are now in direct competition with these low-wage workers.

Globalization has thus had both positive and negative effects on the U.S. economy. On one hand, it has led to numerous technological advances in communication and transportation, so as to improve the international flow of information and goods. It has also been good news for skilled workers, investors, and corporations, who all benefit from lowered production costs. On the other hand, globalization has seen the convergence of other nations towards U.S. standards of living. Although the trend is desirable for low-wage countries, the change is occurring much too slowly as workers continue to be exploited and remain in unacceptable living conditions. Moreover, the unskilled U.S. workers, in that they are in competition with the low-wage workers, are having their standard of living lowered. Even though the U.S. standard of living continues to increase overall, the gap between the rich and poor is widening.[25]

Isolationism is certainly not the answer, for it is unconscionable to leave other countries in utter poverty while the U.S. continues to prosper. Besides, it appears that globalization is a door that, once opened, cannot be closed. The rest of the world sees the opportunity to become

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[24] Eckhard Janeba, Trade, *Income Inequality, and Government Policies: Redistribution of Income or Education Subsidies*, Working Paper Series No. 7485 (Cambridge, MA: National Bureau of Economic Research, 2000), 1.
[25] Howell, 32.

economically tied to the U.S. as a positive one. This is why the International Monetary Fund exerts pressure to keep the global market unrestricted.[26]

Complexity of the Solution

Trying to ensure higher wages for the working poor is rather precarious, for there are many ways that the various economic equilibria can be disrupted or otherwise affected. For instance, many blue collar jobs in the U.S. are affected by government policies. Service contracts, military spending, etc. all support blue collar work, and they may be increased or decreased by simple legislative fiat.[27] This does not even account for government jobs themselves. In addition, governments often regulate economic activities for a variety of reasons, e.g. environment, safety, health, price control, etc. In the opinion of J. Luis Guasch and Robert W. Hahn, "The overall lesson is not that regulation is generally undesirable, but that it often has undesirable economic effects."[28] The bottom line is that living wage proposals must be able to absorb the shock of government influence on the economy.

Next, increases in the minimum wage are often followed by spillover wage increases to employees earning above the minimum wage. Once the lowest paid employees are granted an increase in pay, it is only natural for other workers to want to retain their pay differential. Moreover, some businesses prefer to maintain a pay differential over their competitors in hopes of retaining more highly qualified employees. For example, Lawrence Katz and Alan B. Krueger examined the results of a minimum wage increase in the fast food business and found that the

[26] Jeff Faux and Larry Mishel, "Inequality and the Global Economy," in *On the Edge: Living with Global Capitalism*, ed. by Will Hutton and Anthony Giddens (London: Jonathan Cape, 2000), 108.
[27] Hutchens, 28.
[28] Guasch and Hahn, "The Costs and Benefits of Regulation: Implications for Developing Countries," *World Bank Research Observer*, 14:1 (Feb. 1999), 153.

restaurants who initially paid above the minimum wage retained this buffer after a minimum wage increase “in order to maintain their internal wage hierarchy.”[29]

Some studies have not duly considered the spillover effects of minimum wage increases. In part, this can be attributed to the fact that these spillover effects often have a lagged effect and do not immediately show up in empirical data.[30] Albeit, these effects cannot be ignored, for if the wage hierarchy is maintained, then each employee’s wages will still be the same, relative to the other employees. Even though all the employees earn more, each employee’s earnings will remain in the same place in the wage hierarchy. If prices remained the same, then this would not be a problem, since everyone would have more purchasing power. Unfortunately, it would not work this way. The increased purchasing power would increase demand, and this would in turn increase prices until a new equilibrium would be met. At the end of the day, the standard of living of the employees would not change much, if at all.

Additionally, the plight of workers is in part determined by their own attitudes. Julio J. Rotemberg argues that employees’ perceptions of fairness shape (if not determine) wage equality/inequality. For example, if workers believe that equal distribution is fair, then it is most likely that they will be paid this way. On the other hand, if they believe that fairness dictates rewarding productivity, then such tends to prevail.[31] Intuitively, this seems partially correct, for it is not difficult to see how employees’ perceptions of fairness might dictate their willingness to bargain for wages. Albeit, workers earning at or near the minimum wage most often have very little financial security, if any, and this seems to squelch their willingness to stand up to their

[29] Katz and Krueger, *The Effect of the New Minimum Wage Law in a Low-Wage Labor Market*, Working Paper Series No. 3655 (Cambridge, MA: National Bureau of Economic Research, 1991), 12.
[30] Neumark, et. al., *The Effects of Minimum Wages*, 27.
[31] Rotemberg, *Perceptions of Equity and the Distribution of Income*, Working Paper Series No. 5624 (Cambridge, MA: National Bureau of Economic Research, 1996), 33-4.

employers. And yet, if these workers become unionized, then it is likely that perceptions of fairness would play a prominent role.

Finally, it must be noted that minimum wage workers vary in need. This means that minimum wage legislation would only be effective for everyone if it addressed these differences. For one thing, minimum/living wage proposals need to be able to distinguish low family income workers from high income family workers.[32] This includes teenagers of middle and upper class families. Also, living wage proposals are currently inflexible regarding family size.[33] Moreover, the cost of living varies from place to place. It is easy to see that a comprehensive living wage package will probably not be "one size fits all."

Any Proposal May Involve Tradeoffs

Incentive for Self-Improvement vs. Providing for the Workers' Needs

Some have tried to argue that raising the minimum wage to the level of most living wage proposals would essentially destroy the workers' incentive for self-improvement. Eckhard Janeba believes that this also holds true for subsidies given to low-income workers. The suggestion is that even though uniform subsidies reduce the gap between the rich and poor, they reduce the incentive for unskilled workers to become skilled.[34] It is probably true that by raising unskilled workers to higher standards of living without a corresponding change in their skill levels would probably reduce their incentive to gain skills. However, it is not apparent that this incentive would be reduced greatly, for it is not being proposed that they be elevated to the upper middle class. In fact, the people whose earnings are already at the levels proposed in living wage plans still seem to have incentives to try to improve and move up the economic ladder. If poor

[32] Neumark and Adams, 10.
[33] Neumark and Adams, 1.
[34] Janeba, 2.

workers were raised to this level, we have no reason to believe that they would not be motivated to attain an even higher standard of living.

The real problem for the elevated unskilled worker would be in attaining the necessary skills to move any higher than the elevated level. Suppose that an unskilled worker earns $12,000 annually and that the living wage raises the worker's pay to $30,000 a year. For the sake of the illustration, let us ignore any other effects that might occur (e.g. wage spillover, price increases, etc.). Now we must consider the fact that before the living wage took effect, some workers were already earning $30,000 annually, because they possessed some skills which made them more marketable then the poorer worker. We will say that this worker had X amount of skill. It is also true that the market demands a skill level of 2X in order for a worker to earn $50,000 a year. Whereas the skilled worker earning $30,000 only needs to acquire X amount of additional skill to progress to $50,000, the unskilled worker who benefits from the living wage will still need to acquire 2X amount of skill to move up to the same level.

This illustration makes it easier to understand how unskilled workers who benefit from the living wage will have less incentive to acquire the necessary skills to progress further. It also shows why wage spillover occurs, for it is not likely that the worker with X amount of skill will be satisfied earning the same amount as someone with little or no skill. In fact, the only way that the incentive to advance can be raised for the unskilled worker is for wage spillover to occur. In our example, suppose wage spillover occurs and the worker with X amount of skill ends up getting paid $50,000. However, the jobs requiring a 2X level of skill now pay $80,000. In this case, the unskilled worker earning $30,000 only needs to acquire X amount of skill in order to move up to the $50,000 level. Unfortunately, once wage spillover is complete, it is likely that prices will also increase and the relative poverty of the unskilled worker will be unaltered.

Reducing the Rich-Poor Gap vs. Raising the Overall Standard of Living

It is likewise suggested that living wage proponents must decide whether or not one of their ultimate goals is to reduce the gap between the rich and the poor, because it is contended that this cannot be accomplished without impeding, if not reducing, the overall standard of living for the society as a whole. According to this theory, increases in the minimum wage can indeed raise the incomes of some poor families, but these minimum wage hikes would also "increase the proportion of families which are poor or near-poor."[35] Obviously, this assertion is based on the assumption that raising the minimum wage will decrease employment, an assumption that is not uniformly made.

Nonetheless, when one of the goals of the living wage is to reduce the rich-poor gap, then incentive must be considered once again. In a capitalist society, the standard of living increases as goods are produced more efficiently. According to Alicia H. Munnell, "Productivity growth is the major determinant of the increase in real wages and therefore living standards."[36] Although the overwhelming majority benefits from these advances, everyone does not benefit equally, since the market does not reward everyone equally. In many cases, the entrepreneurs are those who benefit the most, and the incentive to succeed motivates them to take risks and find better ways to produce goods. Whenever entrepreneurial incentives are reduced or removed, the standard of living will tend to stagnate.

Capitalism can indeed produce prosperity, but this prosperity widens the gap between the rich and the poor. In order to reduce the gap, prosperity must be reduced as well. All things

[35] David Neumark, Mark Schweitzer, and William Wascher, *The Effects of Minimum Wages on the Distribution of Family Incomes: A Non-parametric Analysis,* Working Paper Series No. 6536 (Cambridge, MA: National Bureau of Economic Research, 1998), 30.

[36] Munnell, "Why Has Productivity Growth Declined? Productivity and Public Investment," *New England Economic Review*, Jan./Feb. 1990, 4.

considered, it may very well be that a much slower economy with a much smaller rich-poor gap is the preferred choice. Living wage proposals must take this reality into account and be willing to accept the tradeoff.

Small Businesses vs. Large Corporations

For a long time now, opponents of the living wage have been warning that increases to the minimum wage will hurt small businesses, in view of the fact that they will not be able to afford the higher cost of labor. This claim is not surprising, for John Ryan himself admitted it years ago. "An employer is not obliged to pay a full living wage to all his employees so long as that action would deprive himself and his family of a decent livelihood."[37] Ryan understood that the profits realized by small businesses are a much smaller percentage of their total revenue than are the profits gained by large companies. Conversely, labor costs are a much larger percentage of total cost for the smaller business. In this way, the effects of minimum wage increases are much greater for small businesses.

Nevertheless, it is often the case that the market wage for small businesses is higher than that of large corporations. In the small business, each employee contributes a much greater share to the company's overall productivity. As a result, the small business must maintain a higher level of consistency among its employees. It cannot afford low productivity or high employee turnover if it wishes to remain competitive. Therefore, small businesses are usually more willing to pay a higher wage in order to attract and retain better employees. The higher labor costs are frequently offset by lower overhead costs and by smaller profit margins. In the end, small businesses would probably not be affected by modest increases in the minimum wage.

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[37] Ryan, 117.

Albeit, if the wages of the working poor were raised sufficiently to exert pressure on the smaller businesses, it is reasonable to expect (as did Ryan) that small businesses might be affected adversely. Should this occur, larger corporations would gain a larger share of the market. This would basically increase the gap between the rich and the poor, since the wage gap is greater in the corporation than it is in the small business. As a rule of thumb, as the size of the economic sphere increases, so does the difference in earnings between the highest and lowest paid personnel. There is reason to suspect that a sustained effort to prop up the wages of unskilled workers could indirectly widen the rich-poor gap.

Localization vs. Globalization

It seems that the rich-poor gap is also widened by globalization, due to the fact that outsourcing is more economically feasible for large companies. Jeff Faux and Larry Mishel concur with this analysis, claiming that small businesses must be protected if equality is to be preserved in the global economy.[38] This is also consistent with Alasdair MacIntyre's belief that small-scale economies more adequately provide freedom and equity for all who participate.[39]

Globalization does pose significant difficulties to those who wish to raise the wages of unskilled workers in the U.S. For one thing, as the size of the economy increases, it begins to exhibit the characteristics of a large corporation.[40] Employees are not seen as persons, but merely as instruments to be used for gain. This is what John Ryan vigorously opposed. Globalization thus threatens living wages because the global economy cannot be regulated as national

[38] Faux and Mishel, 109.
[39] MacIntyre, *Marxism & Christianity, 2d ed.* (London: Duckworth, 1995), xi-xii.
[40] Alexander Hicks, *Social Democracy and Welfare Capitalism: A Century of Income Security Politics* (Ithaca, NY: Cornell University Press, 1999), 140.

economies can.[41] Simply put, the loopholes get larger and the options increase for the corporations.

As was stated earlier, globalization puts unskilled American workers in competition with unskilled workers in low-wage countries. As long as companies have an ample supply of low-wage workers around the world, corporations will be tempted to move work from the U.S. to those countries. Either: 1) the U.S. would need to become isolationist (at least to some extent), so that companies would be forced to keep production work in the country, 2) a global minimum wage would need to be implemented, or 3) unskilled workers in the U.S. would need to wait until the standard of living in low-wage countries increased to a level comparable to that of the U.S. It may very well be that the wages in other countries will need to be raised near the U.S. minimum wage before the U.S. minimum wage can be raised to significantly higher levels, especially a living wage.

Possible Elements of a Solution

Unionization

Many economists agree that unionization has historically been one of the most effective means of securing higher wages for employees. David Card also adds that unionization "has been a significant force in forestalling rising wage inequality among both men and women."[42] According to David R. Howell, unions are effective because wages are set not only by supply and demand, but also by "bargaining power in the context of wage-setting institutions and social norms."[43] It can be argued that unions have sometimes become too powerful and kept wages

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[41] Faux and Mishel, 110.
[42] Card, *Falling Union Membership and Rising Wage Inequality: What's the Connection?*, Working Paper Series No. 6520 (Cambridge, MA: National Bureau of Economic Research, 1998), 19.
[43] Howell, 11.

artificially high. Albeit, this would not be the case for the working poor, who often have little option but to accept work at a substandard rate. Overall, a balance of power between employee, corporation, and government is what is needed. This balance would most likely need to be maintained through a system of checks and balances.

Raising the Minimum Wage

The next important step to be taken is, of course, raising the minimum wage to a living standard. Oren M. Levin-Waldman declares, "In the absence of all workers to be unionized, the minimum wage offers a modicum of monopoly power to workers, especially on low-wage and low-skilled labor markets to in effect counter balance the monopoly power of employers."[44]

It bears repeating that since unionization and other factors vary from region to region, minimum wage laws would have to also vary if earnings are to be helped equally.[45] Not only that, but it is likely that the minimum wage needs to be indexed so that it will retain its value as the economy expands and shrinks. It could be indexed to the Current Price Index. It would be nice to index it to corporate profits in order to allow workers to reap the benefits of their labors, however each business is different, so it is virtually impractical.

Immigration Restrictions

Since the supply of unskilled workers is greatly affected by immigration, a long-term solution for U.S. workers may require restrictions on immigration.[46] Nevertheless, if we genuinely care about poor workers around the world, then we should not cut them off from

[44] Levin-Waldman, *The Minimum Wage and Regional Wage Structure: Implications for Income Distribution*, Public Policy Brief No. 267 (Annandale-on-Hudson, NY: Jerome Levy Economics Institute, 1999), 26.
[45] Levin-Waldman, 28.
[46] Hutchens, 33-4.

opportunities they may have to improve themselves, even if this is accomplished through immigration.

Trade Laws

The same holds true for trade, since trade brings work to low-income countries. Restricting imports to the U.S. would encourage companies to start producing in the U.S. since much of the market is there. Although this would benefit unskilled workers in the U.S., it would harm unskilled workers elsewhere.

Restructure Unemployment Insurance

Robert M. Hutchens argues that unemployment insurance could be structured so as to discourage layoffs.[47] While this may be true, such changes might also cause more of the work to become temporary or part-time, in which the employer would be free of the obligation to pay the insurance. The problem is that when we try to increase job security for workers, employers are not obligated to retain a certain number of full-time employees who will enjoy the greater level of security.

Education and Training

From what has already been discussed, it is obvious that unskilled workers should be provided with the training and education they need to be able to compete in the marketplace. Notwithstanding, training and education alone will not be enough to buoy these workers above the poverty line. Even if the skill levels of workers increase, the jobs they do must also increase

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[47] Hutchens, 34-5.

in skill level.[48] In other words, having a college degree will usually not merit higher pay for a job that only requires a high school diploma. Moreover, many jobs (e.g. service jobs) are only remotely affected by technological advances and will most likely not increase in skill level. As such, there will always be a demand for low-skilled workers. In all reality, if low-skilled workers move up to moderately-skilled jobs, they will indeed earn more than they could at unskilled positions. Nevertheless, if more moderately-skilled jobs are not produced in the process, then the wages of these jobs will go down, since the supply of moderately-skilled workers will have gone up.[49]

Jill M. Constantine and David Neumark conclude that training has only a marginal effect in boosting wages, but they admit that the incidence of training among less-educated, lower-wage workers is lower than it is for their counterparts. If one believes that the inequality of wages has been largely caused by a technological shift, then this conclusion can be viewed as premature, a possibility that Constantine and Neumark recognize.[50] David R. Howell identifies what he calls "soft skills" (e.g. attitudes, work habits, etc.) as greatly influencing employment and wages. These are skills which cannot be formally taught but are culturally learned.[51] This view also seems short-sighted, and it seems stereotypical to boot. There is no hard evidence to suggest that diligence and discipline are holding back scores of people. It is true that more people are choosing to work less hours, but this is a separate issue.

Too often low-skilled people have neither the time nor the financial resources to acquire the training and education they need to succeed. Hence, public funds must be able to meet such needs, that is, if we truly care about the plight of others who simply need a little help in helping

[48] Hutchens, 34.
[49] Howell, 37.
[50] Constantine and Neumark, *Training and the Growth of Wage Inequality*, Working Paper Series No. 4729 (Cambridge, MA: National Bureau of Economic Research, 1994), 21-2.
[51] Howell, 37.

themselves. Some believe that education subsidies are relatively ineffective,[52] yet the effort must be made if the working poor are to be helped in the long run.

Establish a Youth Subminimum Wage

In some parts of the country, a lower minimum wage for youth has already been tested on a small scale in the fast food business. In these cases, most restaurants did not utilize the youth subminimum wage because they feared not being able to attract qualified teenagers.[53] Considering how far the minimum wage has plunged beneath the poverty line, this result is not surprising. It may very well be the case that if the minimum wage were raised significantly, teenagers currently earning the minimum wage would not be able to compete with adults who do. Besides, the Minimum Wage Commission of 1981 concluded that teenagers take the brunt of the unemployment effects caused by raising the minimum wage.[54] Some of this unemployment might be avoided with a youth subminimum wage.

Worker Ownership of the Corporation

Stephen Haseler suggests that one way to ensure fair wages for employees is to allow the employees to have ownership in the corporation. Essentially, he believes that ownership should be transferred from shareholders to employees. This is a superior alternative to state ownership because it hypothetically would not disrupt the market.[55] Terry Boswell and Christopher Chase-Dunn claim that this type of shared ownership of corporations could be achieved if employees

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[52] Janeba, 25.
[53] Katz and Krueger, 8.
[54] Barry Bluestone and Teresa Ghilarducci, *Making Work Pay: Wage Insurance for the Working Poor*, Public Policy Brief No. 28 (Annandale-on-Hudson, NY: Jerome Levy Economics Institute, 1996), 18.
[55] Haseler, *The Super-Rich: The Unjust New World of Global Capitalism* (Chippenham, Wiltshire, Great Britain: MacMillan Press, 2000), 182-3.

could gradually earn company shares as part of their pay. For example, one-third of their pay could be in shares. Conversely, one-third of the company's shares could be owned by employees with the remain two-thirds being traded publicly.[56]

Democratic Process

The impetus behind employee ownership of the corporation is to give employees some control over their own destinies. In a more general sense, this kind of empowerment could also come from some type of democratic mechanism. Boswell and Chase-Dunn recognize that workers generally benefit from entering into contracts, even when they are exploited. In order to minimize the exploitation, it is necessary to: 1) enforce the contracts and 2) empower the workers thorough some type of democratic process.[57]

Alexander Hicks says that a social democratic working-class movement should have three elements. First, there must be organizational structures which allow collective action on the part of the employees. Second, the employees must be granted political opportunities. Otherwise, their ability to act collectively will be threatened. Third, working groups must adopt what Hicks calls "cultural frames," which are "shared understandings of the world and of themselves that legitimate and motivate collective action, as well as to strategic efforts to fashion these."[58] These three elements enable workers to stand up for themselves and strive for equitable working conditions.

[56] Boswell and Chase-Dunn, 188.
[57] Boswell and Chase-Dunn, 152-3.
[58] Hicks, 237-32.

Conclusion

What I have tried to show is that an effective plan to help the working poor in the long run must be multi-faceted. The desired results will most likely not be attained through a simple piece of legislation. Albeit, the more that government becomes involved, the more complicated the picture will become. I have thus tried to identify what seem to be the core elements of a viable living wage plan, and I have suggested that those elements will need to be limited and balanced with one another. At some point, some type of plan will actually need to be implemented on a large scale, if not uniformly, before we can be certain as to what the effects will be. Else, we can speculate indefinitely.

The global situation is also one that needs attention, and it may be that U.S. workers will have to settle for less until the workers in low-wage countries can be helped. For now, the fact that the U.S. controls much of the global market means that it might be possible to exert some type of leverage against goods imported to and sold in the U.S. However, as other countries start to increase their share of the market, the problem will need to be addressed on a global basis, since it is becoming a global problem. Until that time, it seems that there are various options which can be exercised without disrupting the market itself.