



Minimum Wage and Discrimination

There is little question in most academic research that increases in the minimum wage lead to increases in unemployment. The debatable issue is the magnitude of the increase. An issue not often included in minimum wage debates is the substitution effects of minimum wage increases. The substitution effect might explain why Business for a Fair Minimum Wage, a national network of business owners and executives, argues for higher minimum wages. Let's look at substitution effects in general.

When the price of anything rises, people seek substitutes and measures to economize. When gasoline prices rise, people seek to economize on the usage of gas by buying smaller cars. If the price of sugar rises, people seek cheaper sugar substitutes. If prices of goods in one store rise, people search for other stores. This last example helps explain why some businessmen support higher minimum wages. If they could impose higher labor costs on their less efficient competition, it might help drive them out of business. That would enable firms that survive to charge higher prices and earn greater profits.



There's a more insidious substitution effect of higher minimum wages. You see it by putting yourself in the place of a businessman who has to pay at least the minimum wage to anyone he hires. Say that you are hiring typists. There are some who can type 40 words per minute and others, equal in every other respect, who can type 80 words per minute. Whom would you hire? I'm guessing you'd hire the more highly skilled. Thus, one effect of the minimum wage is discrimination against the employment of lower-skilled workers. In some places, the minimum wage is \$15 an hour. But if a lower-skilled worker could offer to work for, say, \$8 an hour, you might hire him. In addition to discrimination against lower-skilled workers, the minimum wage denies them the chance of sharpening their skills and ultimately earning higher wages. The most effective form of training for most of us is on-the-job training.

An even more insidious substitution effect of minimum wages can be seen from a few quotations. During South Africa's apartheid era, racist unions, which would never accept a black member, were the major supporters of minimum wages for blacks. In 1925, the South African Economic and Wage Commission said, "The method would be to fix a minimum rate for an occupation or craft so high that no Native would be likely to be employed." Gert Beetge, secretary of the racist Building Workers' Union, complained, "There is no job reservation left in the building industry, and in the circumstances, I support the rate for the job (minimum wage) as the second-best way of protecting our white artisans." "Equal pay for equal work" became the rallying slogan of the South African white labor movement. These laborers knew that if employers were forced to pay black workers the same wages as white workers, there'd be reduced incentive to hire blacks.

South Africans were not alone in their minimum wage conspiracy against blacks. After a bitter 1909 strike by the Brotherhood of Locomotive Firemen and Enginemen in the U.S., an arbitration board decreed that blacks and whites were to be paid equal wages. Union members expressed their delight, saying, "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."

Our nation's first minimum wage law, the Davis-Bacon Act of 1931, had racist motivation. During its legislative debate, its



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congressional supporters made such statements as, "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." During hearings, American Federation of Labor President William Green complained, "Colored labor is being sought to demoralize wage rates." Today's stated intentions behind the support of minimum wages are nothing like yesteryear's. However, intentions are irrelevant. In the name of decency, we must examine the effects.

Walter E. Williams is a professor of economics at George Mason University. To find out more about Walter E. Williams and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.

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