

Helping the Poor and More on the Minimum Wage

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January 8, 2007**

The most important thing to understand about the poor is that it is a constantly changing set of people. This is really good news; the right way to start the new year. Only a fraction of the people in the bottom 20% of the income range now will be there for more than a few years. Most of those in the bottom twenty percent of income earners are also in the top twenty percent at some other time in their careers. Not more than 3% of the population work hard all of their working lives and stay in the bottom 20%!!! The chronic poor are only 3% of the population.

That's the way it is in our land of opportunity. The income mobility implicit in the facts just described is the way it should be. No matter where you find yourself, you can improve your productivity and achieve prosperity, even wealth. But you can make mistakes, or just stand still, and fall to the bottom 20%. Which of those do you suppose is the more likely effect of the government programs enacted in the name of helping the poor? Trade restrictions, mandates like the minimum wage, and taxing the successful to transfer money to others (the 'welfare' rolls made from your dough), reduces income mobility by creating barriers, or making the hard work to get ahead less attractive.

The minimum wage is a labor market barrier for folks whose only path to prosperity is a low skill, entry-level job. By the way, the claim that people can't live on a wage that low is a poorly motivated distraction for the many people that know better. Know better about what? First of all, very few people seeking low skill, entry level jobs are supporting themselves on that income. The vast majority have other sources of income, like parents, spouse, or pension. Many of the remainder have the unenviable, but real choice between a very low wage, and no wage. For the least skilled, making the low wage illegal denies them work now, and the opportunity to become more productive in the long-run. Second, there are other ways to help the working poor make ends meet. But it takes leadership to offer them as a substitute for the seeming free lunch of a minimum wage hike.

Free enterprise guided by the market price system, plus rule of law, is the engine of income mobility and economic growth. Rule of law means clear, stable, impersonal rules protecting private property. A system of market-determined prices signals where additional resources generate the most value. The political process can improve on that process only by recognizing its limitations and getting out of the way. Perhaps the most important aspect of leadership is recognizing the inherent limitations of the political process. Price controls like the minimum wage have a long history of being a disaster.