June 3, 2015

What a Pittsburgh College Could Teach Seattle, Los Angeles & Chicago

By Antony Davies & James Harrigan

Last June, Seattle voted to raise its minimum wage, followed by San Francisco, Los Angeles, and Chicago. There is significant political pressure at the local, state, and federal levels for other places to follow suit. But this week, Duquesne University in Pittsburgh gained national attention by announcing that it was raising the minimum it pays its employees to $16 per hour. While the press was quick to refer to this as a "minimum wage increase," it is no such thing. Minimum wage increases are imposed by government. What Duquesne did was purely voluntary. And that makes all the difference.

Evidence supporting actual minimum wage increases is equivocal. An increased minimum wage might or might not make workers more productive. An increased minimum wage might or might not put more money in workers' hands. Politicians make claims about the minimum wage as if they were stating universal truths. But these are empirical questions that hinge on specific and changing details. In contrast, most economists will tell you that if raising wages were beneficial, we wouldn't need the coercive power of government to force the issue. Employers would raise wages voluntarily, as Duquesne has done.

So is Duquesne wise to raise its wage floor to $16 per hour? We don't know. And frankly, Duquesne doesn't know either - in the same way that the city governments don't know if raising their minimum wages will turn out to be a net gain or loss in the end.

In a voluntary market, though, the people with the final say over whether it is a good idea to pay workers more are the people who pay for the product those workers produce. In Duquesne's case, this means students and donors. Offering the workers a higher wage will presumably attract more talented, skilled, and dedicated workers. If the students value enough what those workers offer, they will cheerfully pay the price. If donors place a premium on paying workers more, donations will increase. If students and donors do not value the increased wage, for whatever reason, they may take their tuition and donations elsewhere.

This is how a market answers the question, "is a higher wage a good idea?" The people who foot the bill weigh the cost against the outcome. There is no coercion involved. This should be enough in and of itself to get government out of the wage control business, but there is more. A free, voluntary market contains a self-correcting mechanism. If Duquesne has made a wise choice in raising its workers' wages, then it will attract more students and more donors. This is why 98% of jobs in the US already pay more than the minimum wage despite the fact that there is no law requiring employers to do so. In many cases, customers and investors have determined that a higher wage is a good idea, and have rewarded businesses that pay more. But if Duquesne has made an unwise choice, both students and donors will be in shorter supply, which will force the school to reconsider its choice in pretty short order.

How will it all end? We have no idea. But we will take this sort of uncertainty every time over the heavy hand of the state. Free markets allow businesses to propose ideas, and more importantly, allow customers to judge them. Markets are a continuous dance among entrepreneurs, customers, investors, and workers, through which we figure out how to allocate scarce resources to their best use. However Duquesne is judged, it will know rather quickly what its stakeholders think, and it will react to them one way or the other. Seattle, San Francisco, Los Angeles, and Chicago will not have this experience, nor will any other place that mandates wages through the imposition of political will. Where government controls wages, there is no dance. You simply march to the government's tune or you don't march at all.

Antony Davies is a Mercatus Center-affiliated senior scholar at George Mason University and associate professor of economics at Duquesne University. James R. Harrigan is director of academic programs at Strata in Logan, Utah. The opinions expressed are those of the authors, not of Duquesne University.

Sponsored Links