Economic Issues

Minimum Wage

Although the minimum wage law is more than 50 years old, it is still a very controversial measure. In fact, a battle over the minimum wage occurs every time Congress tries to increase it. Minimum wage seems like one of those political issues that compassionate people should support. But the opposite is true. The minimum wage leads to maximum unemployment for people with few job skills trying to enter the work force.

My own experience is illustrative. I started job hunting as a teenager during a rather depressed economy. The minimum wage requirement nearly kept me from getting a job because, as an unskilled laborer entering the job market for the first time, I had nothing more to offer than a strong back and conscientious work habits. Whether I was worth the minimum wage in my first job is questionable. But after working in a machine shop and as a ditch digger, I developed skills that made me more valuable to my employer.

Back in 1938, establishing a minimum wage of 35 cents an hour seemed admirable. But today it effectively shuts less-skilled people out of the work force. In essence, the minimum wage law requires employers to discriminate against young people with few job skills. A teenager whose services are worth, say, only $3 an hour is not going to be hired at $4.25 an hour (plus benefits like Social Security, which raise the cost to the employer to over $5 an hour). The choice is not between working for $3 an hour and working for $4.25 an hour. The real choice is between working for $3 an hour and not working at all.

The effect of minimum wage on young people is devastating. When the lowest rung on the ladder is higher than your head, that necessary first step into a job will never be taken. The high rate of unemployment among teenagers is due in large part to the minimum wage laws that place the rungs on the ladder too high. Eliminating the minimum wage would allow more young people to get on-the-job training.

Minimum wage’s effect on the poor is also troubling. Research indicates that for every 10 percent rise in the minimum wage, there is a 3 percent drop in employment among workers covered by the Fair Labor and Standards Act. In other words, if seven workers get their wages increased, three workers either get fired or can’t find work. Notice how the minimum wage law has changed the nature of employment in America. More and more restaurants are switching from waiter service to self-service. Gas stations have followed suit. It explains why you see fewer ushers at movie theaters and fewer “bag boys” at supermarkets. In the past, these jobs allowed young people to develop job skills. Today, many don’t exist, and young people are the losers.

Raising the minimum wage may seem compassionate. But in the end, those with limited job skills in need of work experience are the ones hurt by good intentions.

Comparable Worth

Although the idea of comparable worth has been roundly criticized, it is still gaining proponents. Like the minimum wage, it seems at first glance like an issue we should back. But it has not exactly generated a groundswell of support.

Clarence Pendleton (former chairman of the U.S. Commission on Civil Rights) called comparable worth “the looniest idea since Looney Tunes came on the screen.” But even so, its proponents are resolved to make it the law of the land.

The seeds of comparable worth first found fertile ground in the judicial system. A number of years ago, Federal Judge Jack

Tanner, citing a consulting firm's comparable-worth study, ruled that the state of Washington was guilty of sex discrimination. His judgment of nearly $1 billion against the state provided impetus for a similar suit in California.

Proponents of comparable worth argue that the Equal Pay Act of 1963 and the Civil Rights Act of 1964 are not enough and urge the adoption of comparable worth legislation. But underlying this movement are some questionable assumptions.

First is the dubious assumption that differences between male and female wages are due to discrimination. But sexism has less to do with the wage differences than with the way women participate in the economy. Many work part-time, and most leave the job market to raise children. Economist Walter Williams estimates that women on the average spend about one-third of their potential working years in the labor market and therefore have less job-related experience than men. When relevant criteria such as education, experience, and seniority are factored in, many wage disparities vanish.

A study released by the Rand Corporation demonstrates that the gap between male and female wages is decreasing steadily, and the rate of decrease has begun to accelerate in the last few years. Economists James Smith and Michael Ward show that this rise in wages is commensurate with improvements in women's education and job experience, "rather than legislation, government commissions, or political movements."

Second, the approach assumes that personnel studies can adequately compare different kinds of jobs. Yet there is no such thing as an objective scale of economic values. Economists from Marx to Ricardo have tried to devise non-market criteria for the value of labor, and there is still no consensus after 100 years of work on the project.

What will happen when the studies disagree, as they inevitably will? The potential for disputes is endless. Should nurses earn as much as doctors or paramedics? How about a secretary who can drive a car? Should she make more than a truck driver who cannot type? There simply are not enough courts to handle the many kinds of questions that will surely follow.

Third, comparable worth assumes that governmental bureaucrats should decide pay levels. Even in situations of obvious discrimination, we should question whether a bureaucracy is the best way to rectify the problem. In fact, in light of the last 25 years of research into the nature of governmental bureaucracies, one might wonder whether bureaucracies are the best way to deal with any social problem.

Wage inequity deserves attention, but the solution is not to force employers to pay wages established by bureaucrats rather than by the free market. We need better implementation of existing laws and prosecution when discrimination occurs.

Comparable worth plays a game of “worthier than thou” by trying to compare vastly dissimilar occupations without utilizing the market system and depending solely upon subjective judgments. We would do better without it.

Budget Deficits

A theme in recent campaigns has been the budget deficit. And for good reason. We are drowning in tides of red ink, and something must be done. Some candidates suggest that the way to balance the budget is to increase taxes. But that won’t solve the problem and most likely will make it worse.

The problem is not that we are undertaxed but that we are overspent. Consider these budget statistics. First, taxes have continued to increase throughout this century. That’s not so surprising since the cost of living has increased as well. But tax receipts as a percentage of the GNP have also steadily increased over time.

A second way to look at the problem is to plot the increase of the federal government's budget. In 1938 the budget was $7 billion. Today the budget exceeds $1 trillion. That's an increase of over 14,000 percent. In comparison, in 1938 a Hershey bar cost 5 cents, a first-class stamp 3 cents, a new Ford $600, a good suit $40, and gold $35 per ounce. However, if these costs increased by the same proportion as the cost of government, the prices would be astro- nomical. A Hershey bar would be $7, a first-class stamp would be $4.20, a car would sell for $84,000, a suit for $5,600, and an ounce of gold would be $4,900.

Moreover, a tax increase is not a solution; it is part of the problem. Economist Walter Williams has shown that the facts simply do not square with the oft-repeated assumption that more taxes will reduce the deficit.

Williams has studied the federal budget figures for the last 25 years and found the following. The budget has been in the red 24 of the last 25 years. And in 19 of those years there have been tax increases. His studies show that for each $1 in tax increase during that period, there was a $1.58 spending increase. In other words, when taxes rose, deficits skyrocketed.

In 1982, when Congress passed the largest peacetime tax increase in U.S. history, the new revenues were not used to decrease the deficit. Instead, they were used to increase spending in a number of budget categories.

The solution is to cut the federal budget. Bloated bureaucracies drain America's economic competitiveness and often dole out grants to things ranging from obscure scientific projects to obscene art. Certainly it is time to begin cutting the federal budget in significant ways.

A major budget category is federal pensions. There is nothing wrong with providing pensions to civil service employees and military retirees. But some of these pensions have grown much more lucrative than anything found in the private sector.

For example, retired Senator Al Gore was making more than his son, Al Gore, Jr., until the younger man was given a Congressional pay increase in the mid-1980s. When Gore senior retired from Congress in 1970, his salary was $42,000. But, thanks to federal cost-of- living increases, his pension was over $78,000, while his son’s salary was only $77,000. When a current member of Congress makes less than a retired one, something is wrong with pensions. The Grace Commission found that if federal pensions were trimmed to resemble the “best” private sector pension programs, $58 billion in taxes could be saved over a three-year period.

The federal budget is a problem, but many are looking in the wrong places for solutions. Americans are not undertaxed. The American government is overspent. We need to cut expenses, not raise taxes.

Housing

In recent years, Congress has made significant changes in the way it funds public housing. As the next budget considerations loom in the future, we can learn a great deal from the successes of the past.

One of the most important successes was the adoption of the housing voucher concept. The argument for housing vouchers is simple. Many current federal housing policies focus on bricks and mortar. These programs provide incentives to private developers and thus place an emphasis on buildings. Direct rent assistance in the form of housing vouchers is used to replace construction subsidy programs, which often benefit contractors more than the poor. These voucher programs, therefore, direct government resources at people, not projects.

Housing vouchers given to renters utilize the free market system to bring about desired changes. When rent subsidies are allocated for construction of housing projects, we create a seller's market. When we give housing vouchers to renters, we create a buyer's market.A housing voucher system encourages landlords to improve run-down apartments.

Government housing policies make families dependent upon governmental subsidies and lock them into inadequate housing situations. In our effort to win the war on poverty, we have lost the war on independence.

To be poor is to be caught in a culture of poverty, frustrated and without choices. The voucher system provides not only a roof and walls, but choice and dignity. Although government pays only the amount of rent that exceeds 30 percent of a family's income, the family can choose to pay more than that and is free to move to a different housing situation.

A second program success has been the privatization of public housing. A few years ago a bill encouraging privatization was sponsored by conservative Jack Kemp and liberal Walter Fauntroy. Kemp, invoking memories of the Homestead Act of 1862, referred to this legislation as the "urban homesteading bill."

The bill offered tenants of the nation's 1.25 million public housing units the chance to buy their own homes and apartments at 75 percent below market value with no money down and at greatly reduced interest rates. Only units that were "modernized" were offered for sale.

The bill also empowered public housing tenants to run their own projects. Legislators recognized that tenant management would provide better management of public housing.

Inspiration for resident management came from the example of the Kenilworth-Parkside project in Washington, D.C. In 1982, Mayor Marion Barry granted self-management to the residents. An analysis by an international accounting firm indicated that the tenants cut operating costs significantly, boosted rent collections by 77 percent, reduced the vacancy rate by two-thirds, and halved the rate of welfare dependency, thanks to jobs in the project created by the management team. These savings and new revenues, say the accountants, added close to $10 million to Washington’s tax collections.

These have been constructive changes in public housing policy. Housing vouchers provide choices and dignity and arm the poor with a mechanism to improve housing. Resident control of public housing provides for initiative and independence. We need more housing programs like this in the future.

Churches and Taxes

One of the oft-cited criticisms of Christians is that they attend churches that should be forced to pay their fair share of taxes. But once you understand the history of this issue, it is easy to see why critics of tax-exempt institutions miss the point.

When the United States was founded, the framers of the constitution wanted to protect churches from governmental influence. The first amendment to the Constitution specifically states that “Congress shall make no law respecting an establishment of religion nor prohibiting the free exercise thereof.” This protected the churches from the intrusive hand of the state.

But when Congress began to tax its citizens, a question arose. Could it tax churches? The answer then was very simple.

The first two modern income-tax statutes were the Revenue Act of 1894 and the Revenue Act of 1913. In both the laws, only “net income” was to be taxed. Churches and all other non-profit organizations had no “net income,” so they were not taxed. The author of the 1913 Act, Cordell Hull, even resisted the call for establishing explicit categories of exemptions.

He argued that the law was designed to impose explicit categories of taxation, therefore, all organizations not listed would be exempt.

But that was not sufficient for many in the bureaucracy, and so, over time, the Internal Revenue Service began to define what a tax- exempt organization might be. In the IRS code, it is defined as a 501(c)(3) organization.

From the IRS's point of view, it made sense to define a church, because they began to see the rise of bogus churches with names like the "Church of the Marijuana" or the "Hot Tub Church." But from the Christian point of view it seems most unwise to have IRS agents define in legal language what the Bible provides in explicit detail. Sometimes there was a significant confrontation.

Fortunately, Congress has passed a bill which more clearly specifies the role the IRS can have in securing church records and determining whether a church qualifies under the IRS code.

Many critics of churches argue that they can unfairly compete in the marketplace because of their tax exemption. But most of that objection was answered years ago.

The Tax Reform Act of 1969 ended churches' tax exemption for income from profit-making enterprises. Before 1969, churches exempt under theIRS code did not have to pay corporate income tax on unrelated business income, but Congress closed that loophole.

Critics also argue that exemptions are given as a legislative grace in return for specified public services which government would have to provide. But the U.S. Supreme Court held in a 1970 case that traditional property-tax exemptions for churches are constitutional and rejected the notion that exemption is a legislative grace. The argument may have its merits in reference to colleges, hospitals, libraries, or parks. But it is not applicable to churches, since government could not constitutionally set up or operate a church to provide the religious services churches provide. Despite allegations to the contrary, churches are not “getting away with something.” They do not pay taxes because they do not have net income. When they do make a profit in a business enterprise, they pay taxes on it. The rest of the time, they should be tax exempt.