

A living wage and the free market

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In discussions of the living wage issue at Texas A&M, some have argued that we should look only at the going wages in the community and that the "free market" should be our guide. These comments are in response to those arguments.

There is common belief that all wages should be set by the free market and that employers are ethically obligated to pay only the going wage. Indeed, some would argue that it is unethical to pay anything other than the going wage. These arguments, however, are based on a flawed perception of the economy, and a limited vision of economic behavior.

First, in an ideal world all workers would have a wide range of opportunities to move to alternative jobs. If job 1 doesn't pay a "living wage," then the employee would simply move to a job that did. In such a world there would, of course, be no such thing as a job that didn't pay a living wage because employees would not accept such jobs. Needless to say, that perfectly functioning economy does not exist. An employee that leaves his or her job cannot just grab an alternative better paying position.

In technical terms, the market is not at full-employment equilibrium. Hence, simplistic arguments that are based on the presumption that the economy is at such an ideal state are flawed because the critical underlying assumption does not hold.

The second flaw in the free-market arguments is that the government is already paying a role in the economy. Whether you like it or not, government services are available to those that live in poverty. Food stamps, for example, are available to A&M employees at the bottom of the pay scale. By paying wages that leave its employees in poverty, A&M is passing the buck to the taxpayers. Now a true advocate of free markets may want to get rid of such support in the belief that it would move to a higher level of economic efficiency. However, a basic principle of (only slightly more advanced) economics is that you moving just one component of the economy in the direction of a free market will not necessarily increase economic efficiency. This second-best principle says that if you have two barriers to economic efficiency in the economy, correcting just one of them will not necessarily lead to a more efficient outcome. Needless to say, there are many sources of economic inefficiency, so treating the labor market as if it is living in a world of perfect economic efficiency is not only unrealistic, it can lead to bad decisions.

The third problem with the simple free-market argument is that all relationships between participants in the economy are based on a non-cooperative bargaining to squeeze the last dime of productivity out of the last worker. The world, thank goodness, does not operate that way. Employer-employee relationships are just that -- relationships. They

are more than just a contract of this many dollars for this many hours of work. They are relationships of trust and they are relationships of care.

To take a simple example, when we were children, most of us were given an opportunity to take in mow a neighbor's lawn, take in their newspaper or feed their cat. Were we paid the least amount that we would accept -- or were we given something extra out of kindness? Usually the latter. The reason is that the neighbor probably knew that he or she played a role in making the neighborhood a better place.

Now obviously the adult labor market is more complicated, but the same basic principle applies. To create a community, we should pay a wage that doesn't leave our employees living in poverty. This is about caring for our neighbors and creating community. This isn't some socialist ideal -- it's what we do all the time, just taken to a slightly larger scale.

To build community through our economic activities, we must constantly ask ourselves whether we are paying a wage that is exploitative. Are we taking advantage of our neighbors, or are we giving them a wage that respects them as human beings and members of our community? This is a difficult question. The market wage should be taken into account when we ask this question, but it is not the only thing we should look at for the answer.

To sum up, the free market argument doesn't hold because we're not in a free market to start out with and because economic relationships, at their best, involve more than just simple contracts. It's about community, and Texas A&M is in the very middle of that community.