It is generally accepted, that all other things being equal and unchanged, a rise in wages tends to cause a fall in employment. However, reality differs between sectors of economies over time. For example, Zambian copper mining companies increased wages quite substantially several times between 1955 and 1964, without reducing employment.[14] The statement is not, therefore, always true, even if the exceptions are few and confined to a particular set of circumstances. Nevertheless, it is around the relationship between wages and employment, that the economic arguments for and against minimum wages, revolve.

1.3.5 Arguments in Favour of High Minimum Wages

There are two major aspects of the argument favouring high minimum wage rates. The first refers to developed countries and the second to developing countries. As an example of the former, the US might have a further two considerations. During a recession, some economists would advocate higher wages in order to increase purchasing power and encourage further growth. The more general argument relates to the removal of poverty, since it is widely accepted as undesirable, although often for social, rather than economic, reasons. Many US citizens consider that "in an affluent society, no one should have to work below some decent wage, even if society must help provide him with a minimum income or better training or ... greater job opportunities."[15]

Minimum wage legislation, it is claimed, helps the poor who need help most. Higher wages allow workers to be better fed, better motivated and, therefore, more productive. In this way, employers, employees and society are all better off.[16]

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14) J B Knight, Wages and Zambia's Economic Development, Op.Cit; p.99

15) Paul A Samuelson, Readings in Economics Sixth Edition, McGraw Hill Book Co., New York, 1970; Introduction to Reading 51; p.246

16) Ibid

Bell reports that wage rates play an important part in job satisfaction in the US, and that the lower paid and less satisfying the job, the more important is the wage factor. This results in workers rejecting low paid posts.[17] Hence, if the wage rate is too low, voluntary unemployment tends to result and the total supply of labour tends to fall. According to this school of thought, in order to maintain full employment, especially in the lowest paid sector, wage legislation is necessary.

In developing nations, where there is a surplus of labour, many people live in the traditional agricultural sector, with only a subsistence income level. In such economies, not only poverty, but also underemployment are the main economic problems.

Various Commissions investigating wages in East Africa reported that "the existence of a large surplus of labour would lead to a wholly undesirable depression of wage rates if determination was left to the unrestricted operation of the economic laws of supply and demand."[18]

Developing nations have often set minimum wages at a fairly high level on the optimistic assumption that a stable and committed urban labour force would develop. In other words, providing that unemployment and slum areas, conducive to the encouragement of crime, did not result, the high urban wage rates would encourage people to make an orderly transition from the traditional agricultural way of life. The high wages would compensate for the upheaval involved, and ensure that families, as well as workers, made the move.[19] Once settled in a job which paid enough to support a family, workers would be unlikely to return to their previous

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17) D Bell, Op.Cit; p.9.

18) R D Scott, Op.Cit; p.151.

19) Lloyd G Reynolds, Wages and Employment in a Labour-Surplus Economy, American Economic Review, Vol.55, No. 1, March 1965; p.19.

subsistence farming life. Social stability would be one result, while the economic result would be an increased supply of labour to the urban, wage-employment, industrial sector.[20)]

In East Africa, a further objective of moving people to urban areas was to reduce surplus labour in the agricultural sector where there was considerable potential for more intensive soil utilization. Higher minimum wages would eventually lead to concentration on cash-crop production, making agriculture a viable alternative to urban wage employment.[21)] The whole economy would, therefore, benefit.

An additional argument, applicable to both developed and developing nations is the so-called 'shock effect' that higher wages have on employers.[22)] Increased labour costs force firms to consider whether they are using their labour in the most efficient way possible. The result may be to increase the amount of capital used per unit of labour, thus increasing output and labour's marginal product, and reducing prices. In this way, everyone benefits because the firm is more efficient, workers obtain higher wages (which in equilibrium, would be equal to their now higher marginal product), and consumers pay lower prices for the goods produced.

Where higher minimum rates do have an adverse employment effect, all previously low paid workers who continue to hold jobs, will receive more adequate incomes and, providing that the demand for labour is inelastic, (admittedly a rather unrealistic assumption for most developing countries), the wage gains from those remaining in employment more than make up for the wage losses

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20) R D Scott, Op.Cit; p.150

21) R D Scott, Op.Cit; p.150

22) Paul A Samuelson, Economics, Ninth Ed., McGraw Hill Book Co., Tokyo, 1973; p.585, and Readings in Economics Sixth Edition, Op.Cit; p.246

resulting from the lower level of employment. The overall effect on the economy is to increase purchasing power.

This was often a further reason for developing nations setting high minimum wages. Since the general standard of living is usually low, legislated wage rates aim to provide an acceptable minimum standard of living for workers and their families, and also to improve the distribution of incomes.[23)] Through extended family relationships, the higher wages for fewer workers are spread to the rest of the community. Since groups earning lower wages have a high propensity to purchase urban services and domestically produced goods, internal industrial growth is encouraged.[24)] However, it should be noted that this is not always the case. Higher incomes may also encourage spending on imported goods, because local products are inferior (or considered to be so). Thus increasing minimum wages may result in balance of payments problems, unless strong import controls are imposed.

When, relative to prevailing free-market rates, minimum wages are set high, the result is the formation of a high wage élite, i.e. relatively few workers earn high wages, while the non-employed either receive an income from the traditional agricultural sector, and/or receive financial support via the intra-family spread of the wage earner's income. This policy may be justified if labour productivity is high (because only educated, skilled and productive workers will be employed at the high rate); output is increased with resulting lower prices; market demand, and especially export demand, is enhanced; and profits are either good, or are potentially good. Such a situation attracts investment which provides more job opportunities over time.[25)] Unemployment and underemployment are accepted as necessary evils in the short term.

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23) S Watanabe, Op.Cit; p.345

24) R D Scott, Op.Cit; p.150

25) Lloyd G Reynolds, Op.Cit; pp.36-37.

1.3.6 Arguments against High Minimum Wages

There is a strong school of economic theoreticians and historians who maintain that economic growth can also be stimulated by the opposite policy of minimum wage legislation, i.e. setting rates very low to encourage labour-intensive production methods, and hence job-creation and full employment. This policy is more common in the developing countries of Asia than in Africa, partly because Western-style, capital-intensive, industrial techniques are well-established in Africa and less so in Asia, and partly because the latter appear to lack the 'protestant work ethic' to an even greater degree than the former. Some Asian governments, with the support of unions, have adopted a low minimum wage policy to attract both foreign and domestic capital investment, with the aim of obtaining growth through full employment, and an equitable redistribution of incomes.[26)]

In industrialised countries, where labour is generally a scarce resource, minimum wage legislation is designed to protect those groups of workers which are insufficiently organised to bargain collectively with their respective groups of employers. Opponents of the legislation point out that it is exactly these workers who suffer when wage rates are imposed at a level above the existing free-market rate. Rather than increase the wage bill, and reduce profitability, firms will reduce the numbers employed. Precisely because they are not organised, workers are not in a position to bargain over, say, productivity improvement schemes, or even over which categories of workers will be made unemployed (such as the 'last-in', those nearing retirement, married women, etc.). Moreover, unprofitable firms may not be able to

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26) V V Bhatt, Incomes Policy and Development Planning, Finance & Development, Vol.13, No.4, December 1976, I.M.F. and World Bank, Geneva; p.23

pay the higher wages to even a reduced number of workers. The close-down of such firms would result in all their employees being made unemployed. Thus minimum wage laws not only tend to create unemployment, but also tend to force firms out of business, neither of which is desirable.

It should be recalled that the main argument in industrialised countries is that minimum wage laws are intended to help low paid, disadvantaged, unskilled and unorganised workers. Yet, far from helping them, they may exclude them from jobs completely, since they were only employed in the first place because employers could pay them a low wage, i.e. the rate determined by the market forces of supply and demand.[27)]

Opponents of the minimum wage legislation explain that the adverse results found in industrialised countries are exacerbated in developing nations with labour surpluses.

These latter countries need economic growth in the modern industrial sector to absorb the surplus labour in the traditional agricultural sector, petty trade, and service sectors.[28)] However, the industrial sector must also produce goods at low prices in order not only to establish rural and urban domestic markets, but also to expand export markets, and hence benefit from large scale production methods. While labour is 'cheap', i.e. while wages are less than the value of marginal product, firms can afford to use more labour than available production techniques require. However, when high minimum wages are imposed by law, production costs increase which, in turn, raises prices and discourages sales. Producers find it increasingly difficult to compete with foreign goods, both in the home and export markets. If the necessary financial resources are available, they will tend to adopt modern production methods which use relatively small quantities of labour, and hence do little to alleviate the employment problem.[29)]

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27) Milton Friedman, Op.Cit; p.247

28) Lloyd G Reynolds, Op.Cit; p.19

29) Ibid; p.25

Continued increases in the level of minimum wages induce existing domestic firms to use labour-saving devices, and deter foreign firms from establishing new plants, both of which further reduce the number of job opportunities,[30] as well as causing foreign exchange bottlenecks.

In most developing countries there is room for improved efficiency in the use of resources. In a study of the Puerto Rican economy, conducted in 1964, Reynolds found that high minimum wage laws resulted in considerable improvements in the quality of personnel and management techniques. As wages increased, productivity increased through higher quality inputs of management effort, which is always possible in the early stages of industrialisation.[31] Reynolds also measured the effects of increased minimum wages on employment, and found that every percentage increase in wages resulted in an almost exactly equal percentage fall in employment, for the Puerto Rican economy in total, although the effects varied in different industries.[32]

Many governments in developing countries are prepared to pay the high costs of the disemployment effects of high minimum wage rates, in the interests of raising the standards of living of those workers who remain in employment.[33] Tanzania, for example, in 1962, based its minimum wage policy on the needs of the urban family, which meant an increase in the urban minimum and "emphasized the over-riding importance of social considerations and the need to tolerate an increase in unemployment."[34] Tanzania tried to provide alternative employment opportunities in the agricultural sector, and minimum rates were also specified for rural areas, while

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30) Ibid; p.30

31) Ibid; p.33

32) Ibid; p.34

33) R D Scott, Op.Cit; p.151

34) Ibid; p.147

controls over the movement of workers from rural to urban areas were also imposed.

An additional important argument put forward by the opponents of statutory minimum wages in East Africa, is that they are not socially desirable because of the consequent wide discrepancy between peasants' and urban wage-earners' incomes. It is claimed that this results in urban workers becoming a privileged minority, and wage increases will be indirectly borne by peasant farmers through higher taxes and higher prices of consumer goods.[35] Moreover, it is claimed, the substitution of machinery for labour is undesirable, because it wastes the plentiful supply of unskilled labour, increases the strain on scarce capital and skills, and reduces the proportion of national income devoted to investment.[36] "As virtually the whole of wages are spent on private consumption, an increase in wages out of a given national income is likely to lead to a fall rather than to a rise in public and private saving and investment."[37] In his study of resource allocation in East Africa in 1966, Scott found that in general, social and political pressures for high legislated minimum wage rates have outweighed the economic considerations, and "this may ultimately conflict with the government's commitment to rapid economic development."[38]

Similar conclusions were reached by Knight in his study of these issues in Zambia in 1970. When low income groups received higher wages, they tended to increase their expenditure on consumption goods, and there was no increase in individual savings. With the exception of the copper industry, higher labour costs also reduced the

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35) Ibid; p.149.

36) Ibid.

37) Ibid; p.150. The quotation is from E R Rado, The General Case against Raising Minimum Wages, Memorandum submitted by the Economic Development Research Project, Makere, to the 1964 Minimum Wages Advisory Board.

38) R D Scott, Op.Cit; p.151

ability of firms in other sectors to save, and hence to increase investment from domestic sources.[39] Increases in domestic costs and prices discouraged exports, and encouraged imports both of labour-saving capital goods and cheaper foreign consumption goods. If wage costs are higher and other production costs are not lower, than in competing countries, domestically produced goods will tend to be over-priced, and thus no longer competitive on world markets. The result is an adverse development in the balance of payments.

Public development expenditure is financed from government savings (the difference between current revenue and current expenditure). Increased wages cause a fall in government savings, because current expenditure is increased as a result of higher wages to public employees. Public projects are, therefore, curtailed on two counts; firstly, there is less tax revenue or borrowed funds to spend on them, and secondly, since they are usually labour-intensive, and hence have a high wage content, their cost is further increased.

The acute shortage of skilled and educated manpower is not helped by raising wages of unskilled labour. One of the most important problems facing African countries is financing educational projects. In these nations, skilled workers (who are often White) usually receive much higher wages than the less skilled (who are Blacks) and are in a position to demand that their differentials be maintained. The cost of both types of labour, therefore, increases. Higher wages for skilled workers does not call forth an immediate increase in their numbers, and in the long run, the supply depends on government expenditure on education, which may itself be retarded by high labour costs and restricted available finances.

Generally speaking, the developed nations of the world do not need a high minimum wage policy. They can afford to help minority groups of the population who are low paid,

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39) J B Knight, Wages and Zambia's Economic Development, Op.Cit; pp.92-94

unskilled and unorganised through social welfare measures and re-training schemes. Moreover, it is now widely accepted that unemployment does result from such policies, and the maintenance of full employment is generally regarded as a more effective means of ensuring continued economic growth.

The main problems in developing countries, on the other hand, are a surplus of unskilled labour, a need to encourage industrial growth which will absorb that surplus, and the existence of large numbers of people who have only a subsistence income. Until recently, many African countries have relied on a selective high minimum wage policy with the intention of creating a stable urban industrial labour force, whose increased spending power would encourage industrial growth and more foreign investment and, hence, more job opportunities. The policy should also have removed the surplus farm labour, thereby making agriculture a viable sector of the economy and a real alternative means of livelihood.

In practice, many of these countries have found that the high wages discouraged foreign investment and encouraged the growth of (imported) capital-intensive production methods, both of which had adverse effects on the balance of payments. In some cases, the higher labour costs resulted in higher prices and decreases in sales both on the domestic and world markets. Where domestic expenditure did rise, it was either on imported products or local consumer goods, with a consequent fall in savings and investment, both in the public and private sectors.

The policies have had only a limited effect on reducing the surplus of unskilled labour, and economic growth has not proceeded at a sufficiently rapid pace to ensure the removal of poverty, particularly in the rural areas. There is little doubt that the experience of the high minimum wage policies of the post-independent years has proved instructive to the African governments concerned.

These general comments on the arguments for and against high minimum wages in both developed and developing countries, are all, to some extent, relevant to South African wage legislation, since the latter is a dual economy. However, the country with the experience most relevant to South Africa is the US. Although the US is now a highly developed economy, it has had considerable experience in the use of wage regulating machinery. Moreover, the machinery has had to be relevant to the entire labour force, which can, basically, be divided into skilled, experienced, industrial workers who were, at least in the past, mostly Whites, and unskilled, inexperienced, poor minority groups, who were, and generally still are, mostly Negroes. It is, therefore, appropriate to discuss the US minimum wage legislation in detail, in order that the existing South African legislation can be placed in perspective. Moreover, if changes appear necessary in the South African system, it will also be possible to draw on US practice and experience.

1.4 Minimum Wage Legislation: the US Experience

In the US, minimum wage legislation was first enacted in 1912, in the State of Massachusetts, and during the next 25 years, most other States followed suit. The legislation, in nearly all cases, set up wage boards consisting of workers, employers and public representatives who recommended minimum wages for each industry. Payment of the specified rates was not mandatory, but the concept of the 'living wage' was usually established as a norm, i.e. a wage sufficient to meet the cost of healthy living.[40]

In 1938, the Federal Government passed the Fair Labor Standards Act (FLS Act), which set a statutory hourly minimum wage rate and was enforceable on all workers engaged in interstate commerce or in the production of

40) US Dept. of Labor, The American Workers' Fact Book 1960, US Govt. Printing Office, Washington, D.C.; p.196

goods for interstate commerce. The Act's objects were three-fold. In the first place, Congress intended it should increase purchasing power, which was particularly relevant after the depression years of the 1930's. Secondly, it provided a form of protection for firms who paid fair wages against competing firms paying sub-standard rates. Thirdly, it tried to spread employment by enforcing enhanced overtime rates for hours in excess of the standard working week, and by controlling the employment of children.[41)]

Separate State laws have copied the pattern of the FLS Act through amendments incorporating enforceable specific rates, but they are rapidly being overtaken by Federal laws since the latter have a wider coverage and, generally, a higher rate.

The 1974 amendment to the FLS Act extended the coverage to several large groups of workers who were previously exempt. These included Federal, State and local government employees, employees in small firms (usually retail traders and service industries who had been exempt if they employed fewer than a certain number of workers), employees in chain stores (where low value of sales is no longer a reason for exemption), and domestic servants.

According to a recent estimate, 83 per cent of all workers in the non-agricultural private sector, and all government employees, are now covered by the Act, and hence subject to a minimum wage of $2,30 per hour since January 1976.[42)] In assessing this information, however, it should be kept in mind that it is only a minimum for the workers concerned, and many actually earn higher rates.

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41) Ibid; p.199.

42) Finis Welch, Minimum Wage Legislation in the United States, The Rand Corporation, Santa Monica, California, December 1973; p.5
This figure was raised to $2,90 per hour with effect from 1st January, 1979. See Manpower Report of the President 1978.

The most important single remaining group of workers not covered by minimum wage legislation in 1978, are agricultural labourers. The FLS Act, however, incorporated some large farms in 1966, and the Department of Agriculture administers a minimum wage for workers on sugar plantations.[43]

The single rate set by the FLS Act applies to all employees throughout the country, regardless of age, sex, race, occupation and area, providing they work for employers covered by the Act. However, it is the existence of an uncovered sector which has caused much of the debate as to whether US legislation is effective or not.

One of the objects of the legislation was to eliminate degrading, sweat-shop conditions, and to protect unorganised, low-skilled workers at the bottom of the labour pyramid. Its ability to accomplish this has, however, been retarded by the fact that most low-wage employment is in firms not covered by the Act.[44] It is the group of low-skilled workers employed in the uncovered sector, who are not subject to minimum wage legislation, which creates problems concerning unemployment, distribution of unemployment, and differentials in earnings.

1.4.1 Unemployment

Friedman's claim, referred to earlier, that raising the minimum wage rate results in higher levels of unemployment, is only partially borne out by the statistics. In considering the available data, we might first look at the period from 1938 to 1947, where, in spite of the legislation, the effects of the Second World War were probably considerably more important in reducing the level of unemployment. This era will not therefore be considered as typically representative.

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43) F Welch, Ibid; p.4

44) D Pell, The Minimum Wage Reconsidered, The Rand Corporation, Santa Monica, California, August 1974; pp.2-3

TABLE 1: FEDERAL MINIMUM WAGE RATES AND UNEMPLOYMENT RATIOS OF THE US CIVILIAN LABOUR FORCE, BY RACE AND AGE, 1948-1976

Year	Minimum Wage (Dollars)	Unemployment Rates (Per Cent)					
		All Adults Over 16			16 to 19 Years Old		
		Total	Whites	Negroes	Total	Whites	Negroes
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948	(0,40)	3,8	3,5	5,9	9,2	-	-
1949		5,9	5,6	8,9	13,4	-	-
1950	0,75	5,3	4,9	9,0	12,2	-	-
1951		3,3	3,1	5,3	8,2	-	-
1952		3,0	2,8	5,4	8,5	-	-
1953		2,9	2,7	4,5	7,6	-	-
1954		5,5	5,0	9,9	12,6	12,1	16,5
1955		4,[illegible]	3,9	8,7	[illegible]	10,3	15,8
1956	1,00	4,1	3,6	8,3	11,[illegible]	10,2	18,2
1957		4,3	3,8	7,9	11,6	10,6	19,1
1958		6,8	6,1	12,6	15,9	14,4	27,4
1959		5,5	4,8	10,7	14,6	13,1	26,1
1960		5,5	4,9	10,2	14,7	13,4	24,4
1961	1,15	6,7	6,0	12,4	16,8	15,3	27,6
1962		5,5	4,9	10,9	14,7	13,3	25,1
1963	1,25	5,7	5,0	10,8	17,2	15,5	30,4
1964		5,2	4,6	9,6	16,2	14,8	27,2
1965		4,5	4,1	8,1	14,8	13,4	26,2
1966		3,8	3,3	7,3	12,8	11,2	25,4
1967	1,40	3,8	3,4	7,4	12,9	11,0	26,5
1968	1,60	3,6	3,2	6,7	12,7	11,0	25,0
1969		3,5	3,1	6,4	12,2	10,7	24,0
1970		4,9	4,5	8,2	15,2	13,5	29,1
1971		5,9	5,4	9,9	16,9	15,1	31,7
1972		5,6	5,0	10,0	16,2	14,2	33,5
1973		4,9	4,3	8,9	14,5	12,6	30,2
1974	2,00	5,6	5,0	9,9	16,0	14,0	32,9
1975	2,10	8,5	7,8	13,9	19,9	17,9	36,9
1976	2,30	7,7	7,0	13,1	19,0	16,9	37,1

Notes: Column 1: (0,40) was the minimum wage imposed in 1945.
Columns 2, 3, 4: includes all persons aged 16 years and over.
Columns 4 and 7: Negroes means Negroes and other races.
Columns 6 and 7: - indicates data not available

Sources: Column 1: F. Welch, Minimum Wage Legislation in the United States ; Op Cit; Table 1, p.2
Columns 2 to 7: U.S. Department of Labor , Handbook of Labor Statistics 1973 and Handbook of Labor Statistics 1977, Bureau of Labor Statistics, U.S. Government Printing Office, Washington, D.C., various tables.

TABLE 1: FEDERAL MINIMUM WAGE RATES AND UNEMPLOYMENT RATIOS OF THE US CIVILIAN LABOUR FORCE, BY RACE AND AGE, 1948-1976

Year	Minimum Wage (Dollars)	Unemployment Rates (Per Cent)					
		All Adults Over 16			16 to 19 Years Old		
		Total	Whites	Negroes	Total	Whites	Negroes
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948	(0,40)	3,8	3,5	5,9	9,2	-	-
1949		5,9	5,6	8,9	13,4	-	-
1950	0,75	5,3	4,9	9,0	12,2	-	-
1951		3,3	3,1	5,3	8,2	-	-
1952		3,0	2,8	5,4	8,5	-	-
1953		2,9	2,7	4,5	7,6	-	-
1954		5,5	5,0	9,9	12,6	12,1	16,5
1955		4,4	3,9	8,7	11,0	10,3	15,8
1956	1,00	4,1	3,6	8,3	11,1	10,2	18,2
1957		4,3	3,8	7,9	11,6	10,6	19,1
1958		6,8	6,1	12,6	15,9	14,4	27,4
1959		5,5	4,8	10,7	14,6	13,1	26,1
1960		5,5	4,9	10,2	14,7	13,4	24,4
1961	1,15	6,7	6,0	12,4	16,8	15,3	27,6
1962		5,5	4,9	10,9	14,7	13,3	25,1
1963	1,25	5,7	5,0	10,8	17,2	15,5	30,4
1964		5,2	4,6	9.6	16,2	14,8	27,2
1965		4,5	4,1	8,1	14,8	13,4	26,2
1966		3,8	3,3	7,3	12,8	11,2	25,4
1967	1,40	3,8	3,4	7,4	12,9	11,0	26.5
1968	1,60	3,6	3,2	6,7	12,7	11,0	25,0
1969		3,5	3,1	6,4	12,2	10,7	24,0
1970		4,9	4,5	8,2	15,2	13,5	29,1
1971		5,9	5,4	9,9	16,9	15,1	31,7
1972		5,6	5,0	10,0	16,2	14,2	3[illegible]5
1973		4,9	4,3	8,9	14,5	12,6	30,2
1974	2,00	5,6	5,0	9,9	16,0	14,0	32,9
1975	2,10	8,5	7,8	13,9	19,9	17,9	36,9
1976	2,30	7,7	7,0	13,1	19,0	16,9	37,1

Notes: Column 1: (0,40) was the minimum wage imposed in 1945.
Columns 2, 3, 4: includes all persons aged 16 years and over.
Columns 4 and 7: Negroes means Negroes and other races.
Columns 6 and 7: - indicates data not available

Sources: Column 1: F. Welch, Minimum Wage Legislation in the United States ; Op Cit; Table 1, p.2
Columns 2 to 7: U.S. Department of Labor , Handbook of Labor Statistics 1973 and Handbook of Labor Statistics 1977, Bureau of Labor Statistics, U.S. Government Printing Office, Washington, D.C., various tables.

Since 1948, the total unemployment rates for the civilian labour force have fluctuated in cyclical movements. Consider Table 1 which relates changes in the Federal minimum wage to unemployment ratios in the period 1948 to 1976. It is apparent that in the years when the minimum wage was increased, column 2 indicates that on four occasions total unemployment rates rose, and on four occasions they were decreased. Looking at the year following each wage increase, total unemployment fell, except in 1956 and 1975. Assuming that it takes two or three years for the full effects of a wage rise to become apparent, twice the unemployment ratio rose (in 1956 and 1967/68), and twice it fell (in 1950 and 1961/63). There also appears to be a reduction following the 1974/75/76 increases.

There would appear to be no dogmatic justification for stating that raising the minimum wage causes an increase in total unemployment. Other economic factors may enhance or reduce the ratio, and it would be wrong to single out wage legislation as the only cause.

1.4.1.1 Negro Unemployment

In the US, there exists a considerable body of laws designed to ensure equal treatment for all races, yet Friedman argues "I am convinced that the minimum-wage law is the most anti-Negro law on our Statute books - in its effect not its intent."[45] Other US writers have also claimed that raising minimum wages affects Negro employment more adversely than White employment.

Since minimum wage laws are designed to help low paid, unskilled workers, it is basically Negroes who fall under its ambit. Chamberlain and Cullen quote numerous statistics showing that the incidence of poverty and low wage, unskilled jobs is, indeed, greater amongst Negroes than amongst Whites. In 1968, the median annual income of all American families was $8 600, but 63,3 per cent of Negro families had an income of less than $7 000, while

45) Friedman, Op.Cit; p.247.

only 34,2 per cent of White families fell into this category.[46] Moreover, 28 per cent of non-White families were classified as poor, compared with 8 per cent of White families. (Those classified as poor in 1968, had an average per capita income of less than $2,40 per day.)[47] Moreover, in the 1962 survey of occupations, 62,2 per cent of Negroes were in the lower manual class, compared with 26,2 per cent of Whites.[48] Also, the low wage services industries employed nearly twice as many Negroes as Whites. This data was substantiated by a report by the Department of Health, Education and Welfare, which indicated that in 1969, most Negro men were working in unskilled or semi-skilled jobs, such as operatives, service workers and labourers.[49]

However, from the data in columns 3 and 4 of Table 1 no clear picture emerges of the differing effects of minimum wages on the rates of unemployment of Whites and Negroes. In the early 1950's, White unemployment rates fell consistently from 1949 to 1953. In the same period, Negro unemployment rates rose and fell in each consecutive year. The wage rise in 1956 saw a decline in unemployment for both groups, although in the following year, while White rates rose, Negro rates fell again. In 1957 both rates jumped upwards sharply. In 1961 and 1962, both rates moved in the same direction. In 1963, the White rate rose slightly, while the Negro rate fell equally slightly, and both rates fell over the next six years, except for a small rise in 1967. During the 1970's, unemployment rates for both Whites and Negroes again fluctuated up and down together.

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46) Neil W Chamberlain & Donald E Cullen, The Labor Sector, Second Ed., McGraw Hill Book Co., New York, 1971; pp.9-10.

47) Ibid; p.431.

48) Ibid; p.42.

49) US Department of Health, Education and Welfare, Toward a Social Report; US Government Printing Office, Washington D.C., 1969; pp.22-24.

The figures show no obvious adverse effect on Negro employment from rising minimum wages. They do show that unemployment rates amongst Negroes tend to be about twice the level for Whites, and this relationship has not changed in the last 25 years. There is, indeed, cause for concern about the high level of unemployment amongst Negroes, as compared with Whites, but it is not apparent that wage laws alone have been the reason why the Negro unemployment rate has consistently remained double that of Whites.

1.4.1.2 Teenage Unemployment

Teenagers, 16 to 19 years old, are another group considered to be hindered rather than helped, by minimum wage laws, since they are generally included in the low-wage part of the labour force.

Welch claims that "the role of minimum wages was to shift the composition of normal employment, increasing shares for adults ... and reducing teenage shares."[50] There is an additional difficulty in interpreting the teenage unemployment rates, in relation to minimum wage changes, in that Federally-sponsored youth employment programmes began in 1965. After this date, young people working in these projects were considered to be employed, and to that extent, the teenage unemployment figures could be said to understate the real position.

Comparing columns 2 and 5 in Table 1, there does appear to have been a change in the relationship between the percentage of the total labour force unemployed and the percentage of teenagers unemployed. From 1948 to 1962, teenage unemployment ratios were between two and two-and-one-half times higher than total unemployment rates. Since 1962, this relationship has increased to about three times as much, although it must be remembered that about this time, the proportion of young people to the total population increased, as a result of the post-war 'baby-boom'. The introduction of youth employment programmes in 1965, does not show in the statistics in

50) F Welch, Op.Cit; p.17

the form of reducing the relationship to its previous level, although they may have been instrumental in not further increasing the ratio.

The year-on-year changes in the percentage of teenagers unemployed, move in the same direction as the annual changes in total unemployment rates, with a few minor differences. However, in the years when the minimum wage was increased, teenage unemployment rates rose six times and fell only thrice. The upward movements in 1956 and 1967, and the downward movements in 1968 and 1976 were only small, but in 1950, 1961, 1963, 1974 and 1975 the change was quite substantial. The pattern changes, however, if one considers the years immediately after each wage increase. Only after the 1956 increase did the teenage unemployment rate rise further. In all other years, it fell back to the level approaching that prevailing before the wage rise, although the effect is not yet clear following the 1974/75/76 increases.

In spite of this apparently non-adverse effect in the short term, the overall impression is that teenage unemployment has risen to an undesirably high level. It would appear from the analysis of the data that increases in the minimum wage have contributed, in some measure, to the problem.

1.4.1.3 <u>Negro Teenage Unemployment</u>

Since both Negroes and teenagers are said to suffer more than other groups from minimum wage laws, a worker who is both a Negro and a teenager finds himself in an even more serious position.

Column 7 in Table 1 shows that more than twice as many Negro teenagers were unemployed in 1976 compared with 1954, and the rate has risen consistently over the whole period. Moreover, in every year in which the minimum wage increased, the rate of unemployment for Negro teenagers has also increased, with the sole exception of 1968. The rate for Negro teenagers is at least twice as high as for White teenagers, and since 1958, has been not less than 25 per cent, and over 30 per cent since 1971.

While minimum wage laws are not the only cause of this undesirable state of affairs, it would appear that Friedman's notion is correct, and that they must bear part of the blame.

1.4.1.4 Occupational Unemployment

Labourers, operatives and service workers are usually found in the low paid and unskilled occupational classes. One would, therefore, expect that unemployment rates amongst these jobs would be higher than amongst others. Table 2 shows that this is correct. In any one year, the rate of unemployment amongst non-farm labourers was higher than for any other occupation, while the second and third highest rates are found amongst operatives and service workers. respectively.

It is argued that an increase in the minimum wage rate affects employment of these groups more adversely than other workers. The data do not support this claim unequivocally. When the minimum wage was raised in 1961, all occupational groups showed an increase in the rate of unemployment. In 1963, the effect was mixed, with white-collar occupations showing little change, but blue-collar jobs experiencing small declines in unemployment rates. In 1967, unemployment increased again for all groups, except craftsmen and service workers. Contrary to expectations, the 1968 wage increase was accompanied by a decline in unemployment for all occupations. The 1974/75/76 increases in minimum wages resulted in rises in unemployment rates for all groups of workers, although, except for service and farm workers, the rates decreased somewhat in 1976.

There is, however, considerably more volatility in levels of unemployment amongst non-farm labourers and operatives, than amongst other occupational groups; the lowest and highest levels of the former both being substantially beyond the lower and upper limits in other groups. Cyclical movements in the economy are probably the main causes of this volatility amongst unskilled workers, but

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Table 2 : US Unemployment Rates for Selected Occupations in the Civilian Labor Force, 1958 to 1976 (Persons 16 years old and over).

Year	Minimum Wage (Dollars)	Unemployment Rates (Per Cent)								
		White-Collar Workers			Blue-Collar Workers				Service Workers	Farm Workers
		Total	Sales	Clerks	Total	Craftsmen	Operatives	Non Farm Labourers		
1958	1,00	3,1	4,1	4,4	10,2	6,8	11,0	15,1	6,9	3,2
1959		2,6	3,8	3,7	7,6	5,3	7,6	12,6	6,1	2,6
1960		2,7	3,8	3,8	7,8	5,3	8,0	12,6	5,8	2,7
1961	1,15	3,3	4,9	4,6	9,2	6,3	9,6	14,7	7,2	2,8
1962		2,8	4,3	4,0	7,4	5,1	7,5	12,5	6,2	2,3
1963	1,25	2,9	4,3	4,0	7,3	4,8	7,5	12,4	6,1	3,0
1964		2,6	3,5	3,7	6,3	4,2	6,6	10,8	6,0	3,1
1965		2,3	3,4	3,3	5,3	3,6	5,5	8,6	5,3	2,6
1966		2,0	2,8	2,9	4,2	2,8	4,4	7,4	4,6	2,2
1967	1,40	2,2	3,2	3,1	4,4	2,5	5,0	7,6	4,5	2,3
1968	1,60	2,0	2,8	3,0	4,1	2,4	4,5	7,2	4,5	2,1
1969		2,1	2,9	3,0	3,9	2,2	4,4	6,7	4,2	1,9
1970		2,8	3,9	4,1	6,2	3,8	7,1	9,5	5,3	2,6
1971		3,5	4,3	4,8	7,4	4,7	8,3	10,8	6,3	2,6
1972		3,4	4,3	4,7	6,5	4,3	6,9	10,3	6,3	2,6
1973		2,9	3,7	4,2	5,3	3,7	5,7	8,4	5,7	2,5
1974	2,00	3,3	4,2	4,6	6,7	4,4	7,5	10,1	6,3	2,5
1975	2,10	4,7	5,8	6,6	11,7	8,3	13,2	15,6	8,6	3,5
1976	2,30	4,6	5,4	6,4	9,4	6,9	10,1	13,7	8,7	4,5

Source: US Dept. of Labor, Handbooks of Labor Statistics 1973 and 1977, Op.Cit.

1.4.2 Earnings

The Federal minimum wage is usually set at a level equal to between 45 and 50 per cent of average hourly manufacturing wage rates. Table 3 shows the average hourly earnings of production workers in certain industries.