

Increasing wages to decrease poverty

Elimination of Poverty

Poverty is the key problem in social work. Health problems that lead to poverty, or disabilities that lead to exclusion and poverty, are also core problems of social work, as well as inhumanity and cruelty (child maltreatment, racism and sexism, violence, war); but really, poverty and the social exclusions and limitations on choice and access that society imposes on persons who have low incomes and few assets are the source of most of the problems we as social workers face.

Poverty is most often a stage that someone goes through. People are often poor when they are born and during their childhood, because parents of young children tend to be rather young, and young people tend to earn less than older persons. Then, as people leave school and enter the workforce or start a long-term partnership or marriage, they tend to move out of poverty. They generally fall back into poverty if they lose their job or if they suffer a divorce or split-up, and of course an injury or illness can cause a loss of income and put people back in poverty as well. Losing a job is sometimes caused by a health problem or a mental health issue, but it is also frequently a result of circumstances in the larger economy, or decisions made by investors and management or administration about how to cut losses or maximize profits.

When poverty is caused by losses of work, one tendency is to consider that the unemployed person who risks poverty must now find a job, and if they do not find a job, it is because they are insufficiently motivated and lack diligence in their search for a job. This lack of an ability to find a job can be blamed on drug use, laziness, complacency, lack of ambition, and a willingness to live dependent on others instead of becoming self-supporting. There is another tendency, which is to consider that people are unable to find work because they face barriers. For example, there may not be suitable jobs for them, or there may be no jobs at all, suitable or unsuitable, for them. There is evidence that employers discriminate in hiring against older persons and persons without “sufficient” European-American heritage. Employers are less likely to call back someone with a “Black-sounding” name or “Hispanic” name when given resumes and job applications that are equivalent, preferring to call back persons with “European-sounding” names. People also point out that our economic system uses unemployment to keep workers submissive to their employers, and the risk of falling into the ranks of the unemployed works to keep wages depressed and profits inflated. Thus, people who control the economy attempt to keep unemployment at 3% to 5%, fearing that if unemployment goes too low, wages will increase and inflation will result. Further, persons with native ability and aptitude may potentially be great workers, but because their education has been inadequate, they may fail to find work in which they can flourish. This tendency tends to blame forces beyond the control of the able-bodied unemployed for their poverty.

In actual fact, there aren't that many able-bodied adults in the prime of their years (30-60 years old) who are poor. The young and relatively unskilled and inexperienced are more likely to be poor, as are the people who are not abled-bodied, or if they are able-bodied, they may not be mentally or psychologically well-suited to the demands of most jobs in today's economy.

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Because lack of work is the largest contributor to lack of income and resulting poverty, we should always first consider the problem of unemployment when we contemplate the elimination of poverty. What should we do about unemployment?

You should know that unemployment comes in three “flavors”

First, there is: “frictional unemployment” and no one worries about this.

It’s the unemployment as people move (quickly) from one job to another. No one worries about this. If unemployment is at 1% or 2%, the only people who are unemployed are probably just temporarily between jobs, and they will soon find work.

Second, there is: “cyclical unemployment” and we know how to fix this.

Every 5-15 years the economy slows down, we stop having growth, and unemployment rises. The Keynesian solution is to increase spending and lower taxes until we come out of recession. The increase of money from the extra spending and lower taxes stimulates consumer demand, and the economic growth returns, and firms hire more unemployed workers to provide more goods and services demanded by consumers. However, during the 6 months to two years of recession, unemployment rates may go up, as in the Great Recession when unemployment rates reached about 10% in 2009.

Third, there is “structural unemployment” and this is the more difficult problem.

This is the situation where the skills of the workforce do not match the demands of employers, so that people with skills that gave them an expectation of say, easily finding a job paying \$25 per hour, find instead that they cannot get any job for which they are trained, and may not even be hired for jobs paying \$15 an hour or less because they are overqualified or ill-suited to such work. In this situation, workers offer skills that are not in demand, and so they cannot find work. The situation is addressed by having job-training programs and adult education programs, so that workers can be retrained for better jobs that are actually in demand. The situation can also be addressed by policies that encourage more employment, so that workers will find it easier to get hired, even if they are only marginally qualified or over-qualified.

Structural unemployment also exists when workers are generally low-skilled and employer demand is for high-skilled workers. So, for example, while many poorly-educated and poorly-trained Americans remain unemployed, some American employers receive permission to hire foreign workers to come to the USA to work in occupations for which too few Americans have the required skills and qualifications. In such a case, the problem of structural unemployment is solved (for the employers) by importing qualified workers rather than training and educating local workers (which would solve the problem for the workers as well as the employers).

So, for frictional unemployment, the solution is to make it easy for unemployed persons to find work, and remove barriers that make it difficult for firms to hire new workers. For cyclical unemployment, a stimulation for consumer demand (increased government spending and decreasing tax revenue) should stimulate the economy (while increasing the public debt). Government stimulation should (if we are concerned about the burden of debt and debt payments) be used only during times of high

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unemployment, because constant government stimulation of the economy would imply constant increasing of the government debt, and government debt must be paid off with interest eventually, so perpetual stimulus spending will eventually create problems for future tax-payers. For structural unemployment, the solution is generally job training or incentives for firms to train new hires.

There are other solutions to unemployment. One would be a universal work guarantee. The government could find things that ought to be done, but won't be done by for-profit firms because there is no potential of profit or good returns on investment, and set about doing all that sort of work using an army of workers pulled out from the ranks of the unemployed. The government already does some things that lead to inflated employment in certain sectors of the economy. Massive defense spending on armaments and technology creates jobs for engineers and scientists and factory workers who create things the military will purchase. Aside from mercenary activity, there is no money to be made in having hundreds of thousands of persons serving in the armed services, but the fact that military service is an option provides career paths and training for many persons who might otherwise be unemployed. The federal government could just as easily create a force of two million persons devoted to environmental work, providing affordable day care, providing assistance to elderly, constructing massive sea walls to protect us from the rising oceans, measuring in minute detail the populations of plant, fungus, and animal species and tracking the health of our environment. We could build impractical public works programs (perhaps a massive water pipe to bring surplus water from the rivers and lakes of the upper Midwest to the areas of the American Southwest that are projected to suffer terrible droughts as our climate changes). We could create super-high-speed rail systems that would lose money, but provide a public service by making public transit across the vast distances of our nation easier and more affordable (just as the money-losing federal highway system earns no profit and yet provides huge economic stimulus to our nation). The construction of low-income housing to eliminate homelessness is another project where private markets have failed, and with a federal construction force building adequate housing, this problem could be solved. The main reason we do not eliminate unemployment (and thus, eliminate poverty among the able-bodied sound-minded population) by simply hiring everyone into government public service like this is that such a scheme would cost quite a lot, and necessitate an increase in taxes, and also such a scheme would threaten investors in the private sector, as wages would increase (to the extent that government service paid well and offered opportunities for meaningful work, many would leave the private sector unless their wages and working conditions improved), profits would potentially decline, and the capitalist class does not want profits to decline.

Unemployment is not the only cause of poverty among persons of sound bodies and minds. The other problem is underemployment and low wages. But, how should we raise wages? If firms can't make a profit paying all their workers a wage above poverty, then firms should raise prices to cover the higher labor expense or else simply get out of business and find a more efficient way of providing some other good or service where the demand will allow investors to pay their workers appropriate wages and salaries.

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There are a few approaches to this.

First, and perhaps most obviously, we could mandate higher wages with minimum wages or salaries. We could demand through law that employers paid their workers a sufficient wage or salary that would remove their workers from poverty.

Second, we could try to create a society with full employment.

Relative scarcity of labor will drive up labor costs, and wages will rise.

Achieve full employment with a “pro-business” climate

Achieve full employment with public sector jobs

Achieve full employment with public incentives for private sector to create jobs

One approach to creating full employment would be if we tried to create an economy that is so strong and vibrant that the free market hires everyone. This is summarized with the slogan that we must: create a “pro-business” climate

In the USA, this term is associated with...

Laws and policies to weaken labor unions

Laws and policies to encourage business investment

Tax advantages for investment

Lower taxes

Fewer regulations

We could create full employment by using more public sector jobs

This approach is associated with...

Providing “government sector jobs” to more people

The New Deal (e.g., the Civilian Conservation Corps, the WPA,
the Federal Writers’ Project, etc.)

Expanding the size of the armed services

We could also promote full employment with incentives for the private sector to create jobs

This approach is associated with...

Subsidized Employment (Work Experience programs and On-the-Job Training)

Government Purchasing (the Military Industrial complex is a sort of jobs program)

(building and maintaining infrastructure creates jobs)

Regulation waivers or tax breaks for companies that hire more workers

Tax breaks as incentives to bring companies into a locality and hire local workers

Provision of welfare so companies may pay lower wages

(privatized profit, socialized costs; EITC, SNAP, and Medicaid are subsidies to low wage workers that allows them to work for low wages, allowing some employers to continue paying low wages, thus raising their profits)

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The “pro-business” approach has worked in some times and places. All sides agree that they want “pro-business” climates, but disagree on how to create that. Some (more often liberals or radicals) say that strong unions and high wages are compatible with a “pro-business” climate, and sensible regulations can in fact encourage business growth. Others (more often conservatives or libertarians) say that unions and regulations discourage business investment or economic success. Pro-business policies have sometimes been associated with rapid economic growth and income increases, but pro-business policies have in other times been associated with economic stagnation, wage declines, increases in pollution and workplace accidents, and increasing inequality. So, evidence is mixed, and “pro-business” policies are evidently neither sufficient nor necessary to effect widespread prosperity and wage growth, although they seem to clearly make a beneficial difference in some situations.

The public sector jobs approach has worked to some degree (for example, in the so-called “communist” nations of the 20th century there was sometimes impressive economic growth and modernization, as in the Soviet Union in the 1920-1930s and China in the 1950s and 1980s). The New Deal employment schemes were helpful, although they did not end the Great Depression. Because public sector jobs do not lead to the accumulation of capital that can be used for investment in areas where investment will lead to economic growth, and also because public sector managers and workers may generally have a tendency to be less motivated to innovate and improve (because they are not threatened with punishment by free markets if they become unresponsive to consumer needs), some (conservatives and libertarians, especially) argue against decreasing unemployment by giving every unemployed person a government job. Others (radicals, especially) suggest that government can step in to provide services or goods that markets will not supply (common goods like transportation infrastructure, recreational and parks infrastructure, non-profitable scientific investigation, low-cost housing, etc.) while simultaneously addressing unemployment problems. The total fraction of the workforce the government would need to hire to eliminate structural and cyclical unemployment would only be 3% to 7%, so the weight this would put on the economy (because taxes extracted mostly from workers and owners in the private sector would pay the wages of public sector employees) would be more than offset by the benefits (greater consumer demand and rising wages as unemployment became merely frictional would help the private sector make more money so that they could afford the taxes to support a larger public sector). As with the “pro-business climate”, evidence from history is mixed, and while massive public sector employment campaigns have been successful in some cases, their successes are limited, and sometimes when the public sector has become too large, public firms have become notoriously inefficient and retarded economic growth.

The approach that uses incentives and subsidies to create jobs has been the dominant strategy in the United States, and it worked especially well in getting us out of the Great Depression when, as the USA prepared for and then entered the Second World War, military spending created impressive prosperity. In fact, the USA has subsidized wages of low-wage workers with cash (EITC), food (SNAP), and medical insurance (Medicaid) for the past few decades. Military procurement (buying expensive aircraft and submarines and so forth) has provided jobs and income for military contractors and their workers, and tremendous profits to investors in the human slaughter industry. Tax incentives and relatively lax regulation (compared to other modern industrialized economies) has helped America remain

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moderately highly ranked as a “business-friendly” country for investment (ranked 17th out of 161 countries in the Forbes “Best Countries for Business” index in 2018). But unemployment and underemployment remain higher than they ought to be, and real wage growth has been spotty over the past few decades (peaked in 1999, and was in 2015 still 2.7% below that high point of 16 years earlier).

Try to create a society that will earn the highest wages.

- Use job training and education to create a work-force that is more efficient and skilled

- Public incentives to high wage sectors and discouragement of low-wage sectors

- Policies to support worker bargaining positions (pro-union policies)

- Allow workers to easily find the best employment and move to better employment.

Also, these could be helpful:

Keep unemployment low by stimulating demand in the economy and intervening during recessions to hire workers or create economic conditions that lead to more hiring.

Use a basic minimum income or a basic living stipend to remove coercion from the worker’s relationship to the labor market, and remove the minimum wage at the same time. People who do not want to work will not need to work, and wages that are too low will fail to attract workers if they can live adequately and decently on their basic income stipend. This will force employers to create attractive jobs, and since wages may be seen as merely “supplemental” to the basic living stipend, wages might be quite low for some jobs, but this will be less of a problem since earned income will be seen as an “extra” above the basic minimum living salary everyone gets whether they work or not.