

## Something to Think About



OAKWORTH  
CAPITAL BANK

# COMMON CENTS

Just what is money? According to Merriam-Webster, money is: “something generally accepted as a medium of exchange, a measure of value, or a means of payment.” For centuries, people used metals of various types for money, and certain, more primitive, cultures used things like shells, glass, and even rocks. Today, money primarily takes two forms: 1) paper, and; 2) computer keystrokes.

Sure, we still pass along metal coins, and people certainly barter and the like. However, when push comes to shove, regardless of what you use, money is really nothing more than a unit of measurement. In that regard, it isn't really any different than a gram, ounce, pound, or what have you, except it measures the implied worth of an individual's output on the economy. Or at least what someone else values your output.

That last sentence is key: what someone else values your output. Frankly, the value you place on it really doesn't matter, unless you don't have any use for other people's money. To that end, I am always a little tickled whenever I hear the following: “So & so couldn't sell their house.” Sure they could, if they have been willing to accept what other people were willing to pay for it. As such, a more appropriate way of saying someone couldn't sell their house is actually: “So & so wouldn't sell their house.”

In our society, we bemoan how much we value athletes and entertainers over educators and other professions which are arguably more beneficial to the proverbial greater good. However, there is a reason for this: the supply of people who can hit a major league curve ball 400 feet and the number of people who are charismatic enough to demand our attention are far fewer than the number of us which can flip a burger or sell a television.

With that said, if the number of Americans who could hit curve balls 400 feet was in the millions, it wouldn't be as special, would it? If everyone were the physical ideal, the Hollywood celebrity machine wouldn't exist; there would be no need for it.. I think you get the picture.

Currently, there seems to be much public debate about wages, or lack thereof for many Americans. In its purest economic sense, the fact personal income isn't expanding at a more rapid rate is due to the fact the global economy, yes global, doesn't value the output of the average American worker any more than it does. We can blame greedy corporations for hoarding cash all we want, but that doesn't hold water.

Why? Because all those people decrying greedy corporations are actually right; corporations are greedy. They want to turn a profit, and will actually spend money to do so...and actively search out those workers whose output and productivity engenders a fatter bottom line. Contrary to popular belief, corporations ARE willing to spend big money to get these types of workers, with one catch: the amount the corporation pays the employee HAS to be less than the market value of that worker's output PLUS a desired profit margin.

If, however, there are other workers available that can generate the same amount of output at the same price or less, companies will sit on their employee's wages. The fact wages & salaries are not expanding at a more rapid rate suggests corporate Globe believes there are any number of workers who can produce at or near the same level as the American worker for the same price or less.

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**“Unions are calling it ‘civil disobedience’ when in reality, this choreographed activity is trespassing and it’s illegal,”  
National Association of Chain Restaurants**

## Something to Think About Cont.

I am sure there are more than a few people who think this is in error, but it isn't. Take the current brouhaha over the fast food industry, with strikers, actual workers or not, demanding an increase in the Federal minimum wage to \$15/hour. Considering the fast food industry, on average, pays around \$9/hour, that is quite a jump in pay, and there is no doubt these people believe the value of their output is worth that much to the economy.

Still....

This morning, the Bureau of Labor Statistics released the Employment Situation report for August 2014. It was pretty mediocre, but we have almost become used to mediocre haven't we....neither fish nor fowl in aggregate. However, within the Household Survey, there are some glaring statistics which suggest our economy is absolutely rife with the supply of unskilled and semi-skilled labor. Couple this with untold millions of illegal immigrants in the country who don't always make it into the Employment Situation report, and how anyone can think an increase in the minimum wage is a good thing economically boggles the imagination.

Consider this: the labor force participation rate for Americans over 25 who have LESS than a HS diploma is 45%. The total number of people in this demographic is probably around 23,687,000. IF the labor force participation rate for this group was a pretty average 65%, that would mean an additional 5,234,000 out there looking for a job. For those workers who have a HS diploma and no further schooling of any kind, using the same equations, the US economy would have an additional 5,309,000 workers searching for work.

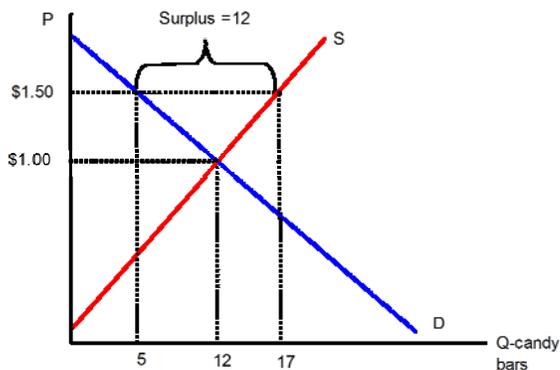
Combined, that is obviously an additional 10.5 million workers out there without a college or associates degree or anything more than the last day of high school. Let's not forget about the current 3.3 million workers in these two age groups which are officially unemployed! That takes the total to just south of 14.0 million. Throw in any number of millions you want to account for unskilled and semiskilled illegal labor, and I think you get the picture: there is NOT a shortage of potential lower wage workers in the US economy! In fact, we are swimming in them....we have them in excess supply.

What then would be the economic point of putting a price floor for lower wage labor ABOVE the market clearing rate, which in the fast food industry is significant less than the much bandied \$15/hour? After all, price floors always lead to surpluses of some kind when the floor is set above the market equilibrium:

Here is a little primer from and undergraduate study guide from California State—Northridge University.

### 5.c The Effects of Price Floors

"A price floor is a base price at which an item can be sold. If a price floor is imposed below the natural equilibrium price, it is not binding. A price floor that is not binding has no affect on the current price of a good. On the other hand, if the price floor is set above the equilibrium price, it is said to be binding, resulting in a surplus.



**Figure 5.c.1** demonstrates this with candy bars.

Without free trade interference, the natural market price for a candy bar is \$1.00. When the government imposes a price floor of \$1.50, the quantity supplied (17) exceeds the quantity demanded (5) by 12 units, resulting in a surplus of candy bars."

Gang....this is just about Econ 101, and I can't imagine a serious economist seriously recommending a significant increase in the minimum wage at this time, when the potential supply of un and semiskilled labor in the US economy is literally as massive as it is, WITHOUT having some sort of political agenda. After all, increasing the price of low end labor above the clearing rate WILL increase the supply of it WHILE decreasing the demand.

As a result, a significant shift in the price of unskilled labor without a significant increase in the demand curve to the

## *Something to Think About Cont.*

right in the graph WILL create an even greater surplus of unskilled labor, officially, in the country. Forget about the even larger numbers of illegal immigrants who will risk life and limb to get into the United States because El Gringo has set an artificially high price floor on its unskilled labor...taking fast food pay, amongst others, from a \$9 average to \$15.

Frankly, it baffles me how this makes headlines and gets supporters, vocal ones. Consider this from, well, I will let you guess from where: ***“Raising the minimum wage nationwide will increase earnings for millions of workers, and boost the bottom lines of businesses across the country.”***

This is a hot one for me, because I simply don't understand how potentially increasing SG&A is going to boost the bottom lines of businesses across the country. I don't; it seems so counterintuitive: you create a surplus of unskilled labor in the country and that increases net income somehow? Okay, I guess....wha?

In all seriousness, where the rubber meets the road, the discussion over increasing the minimum wage is nebulous. Why? Because the average wage in the US is around \$20.68/hour; so any increase is really only going to affect a small segment of the workforce. The Democrats under this, as do the Republicans. No one wants to see the rate go up to \$15/hour, because everyone understands the consequences. However, there are enough who believe “phasing in an increase” will have a ‘smoothing’ effect on hiring & firing, as the market clearing price for unskilled labor naturally increases on its own....closer to the proposed new rate.

This is why the Administration has proposed a \$10.10/hour ‘phased in’ minimum wage, because even the lowest industry sector in terms of median/average pay will be close enough to that number to spit at within 3-5 years simply due to inflation and market absorption of excess supply. HOWEVER, a sharp and sudden increase in the minimum to that, again, \$15/hour level would be horrific to the economy, and the Administration knows it....that is why it isn't proposing such a thing and why you would be hard pressed to find too many incumbents of either party making such a recommendation.

By the way, that quote above in bold comes from whitehouse.gov. This suggests to me the Administration understands enough about such things that it wishes these unions would shut up \$15 while the President has other, more pressing, issues at hand in Iraq, Ukraine, and elsewhere. “Don't back me into a corner guys....don't do it....please clam it....it ain't gonna happen....has no chance, and I can't stick my neck out THAT far on the issue. I would be exposed as a real hack.”

So, in the end: money? What is it? It is a measure of your worth to the economy, plain and simple. When that worth is artificially set by a dispassionate 3rd party, well, not much good happens....you will likely either be underpaid or overpaid for your output. Basically, someone gets the rook. However, that isn't going to keep people from clamoring for price floors on labor, otherwise known as minimum wages. So, be careful with these folks: those advocating sharp increases as so-called “living wages” don't understand basic economics, and are trouble. Those advocating phased in, pushing on a string type increases probably have another motive, because they know the market was moving in that direction anyhow. So, I guess you need to be wary of those folks as well.

Heck, when you really think about it, maybe you shouldn't listen to anyone about minimum wages and the like, and go negotiate your own salary.

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