

Income Is Determined by the Scarcity of Your Contribution, Not the Value of Human Worth

In a few months' time, my wife and I will send our second child to daycare. Like all parents, nothing is more precious to us than our children. So it's surprising that the people whom parents trust to take care of their kids—childcare workers and preschool teachers—get paid median salaries of just [\\$22,290](#) and [\\$28,990](#) a year.

This seems more than unfair. It seems perverse. Why would people trusted to take care of infants and toddlers 40-50 hours a week be paid the same as [dog walkers](#) and [janitors](#)? Why should people with such important jobs be paid so little?

Your Income Is Determined by the Scarcity of Your Contribution

There's a lot of popular misperception concerning why some people make more than others. Most recently, Rep. Ocasio-Cortez, citing the "[value of human worth](#)," [tweeted confusion](#) over why people resist a \$15 minimum wage when an airport croissant costs \$7. Such confusion stems from the Marxist labor theory of value, a theory that [economists have thoroughly debunked](#).

Popular misperception of how wages are determined is understandable because even the introductory economics course explanation of "productivity" doesn't help much. "More productive workers get paid more" is a fine approach for the classroom but ultimately incomplete for the apples-to-oranges

comparisons people like to make. Are people who take care of your children really as productive as dog walkers and janitors?

Here's a better explanation, one that accounts for essentially all income differences:

Your income is determined by the scarcity of your contribution.

That's it. There is no trick here, no intellectual gymnastics to perform. This is the grounding explanation for why some people make more than others. If you want to understand income inequality, or you simply want to make a lot yourself, this is the explanation you should always keep in mind.

Childcare Workers Are Simply Not That Scarce

Consider childcare again. Taking care of a room full of kids is exhausting. Like all jobs, it's not inherently fun, which is why you have to pay people to do it. But it's certainly more appealing than most jobs. There's no work to take home and no grading to do. The hours are regular and, if the weather is nice, the work is outside. Many find the work meaningful.

It's not only a relatively enjoyable job, but the skills required are also relatively easy to acquire. Evolution demands that most people be able to do the job of early childhood educators. Applicants might not always have the credentials, but its essential elements are no mystery. Most people have a lot of practical experience with their own children.

Even though childcare work is incredibly valuable, capable workers are relatively abundant. Pay falls accordingly because wages are determined not only by value or by availability.

Wages are determined by scarcity.

Wages, Like All Prices, Measure Scarcity

Wages (or compensation, to include benefits) are prices of labor, and like all prices, wages measure scarcity. Scarcity is the operative word here. Scarcity is not just a matter of how much there is of something (supply) but also considers how much people want something (demand). The higher the price, the greater the scarcity. The lower the price, the lesser the scarcity.

For example, lots of people want water, but there is so much available, the price of water is low. At the same time, if I made a sculpture it would be the only one that exists, but no one would want it. Its price would also be low. Honestly, its price would probably be zero: even one David Youngberg original would be too many.

Labor markets are like any other market, and wages are like any other price. To illustrate, consider how crucial cashiers are to any grocery store. Though self-checkouts have taken away some of their necessity, most stores absolutely need cashiers. Yet cashiers make just [\\$10 an hour](#), and their pay was low even in the time before self-checkouts, when a store literally couldn't function without them.

Now compare cashiers to other grocery store jobs. [Florists](#), [butchers](#), and [bakers](#) aren't nearly as critical to the store, but their median pay is \$12-\$15 an hour. You don't need a flower shop or deli or bakery to sell most groceries, so why are cashiers paid so little?

Scarcity is why. It's not just about how much employers want to hire (demand) but how many people are available to hire (supply). Anyone can do a cashier's job, as evidenced by the

proliferation of self-checkouts. Florists, butchers, and bakers require more training and a greater degree of conscientiousness. Even though a cashier is more “productive,” other workers are much scarcer and are paid accordingly.

Not All Income Is Justly Earned

The “incomes as scarcity of contribution” explanation is merely descriptive; it is not a commentary on the justness of the outcomes. Luck can suddenly render a useless skill relevant or a valued skill redundant. That’s unfortunate, even unfair, for the people on the losing end of that change, but it’s how the world works.

There’s no avoiding the underlying reality of the competitive pressure of markets.

More commonly, the level of scarcity is politically manipulated. Licensing creates barriers to entry, making jobs like *hairstylist* and *interior designer* scarcer than they otherwise would be. Other regulations drive up the wages of providers in industries like [health care](#) and [law](#). Corporate subsidies, including farm subsidies, drive up demand and artificially increase scarcity. Just because income is determined by the scarcity of the contribution doesn’t mean all levels of scarcity are natural.

“Contribution” Doesn’t Mean Hard Work or Your “Worth” As a Person

Contribution is a wholly different concept from hard work. Some work hard doing low-value activities, and others can create a lot of value with little effort. There’s a correlation between effort and contribution, but it’s noisy. As the saying goes: work smarter, not harder.

Nor is your “worth” as a person the same as your income—it

probably doesn't even correlate. "Contribution" describes only market activity. Many people add a great deal of value to society, from stay-at-home parents to volunteers to very good friends. That they don't get paid for this contribution only means that people are more than what they do for a living. They are valuable in some larger sense, but you only get paid for market activity. People are much more than their income.

This last point is the hardest to internalize. There are many people who have contributions that are so relatively abundant, they have a difficult time purchasing their basic needs. It's easy to fall into a trap that the world thinks little of them because of their income.

The low salary of preschool teachers, janitors, and cashiers only tells us that what they contribute to economic activity isn't that scarce. It says nothing about their worth as people. When you understand that wages are just measurements of scarcity, [deriving from natural differences in work and people](#), the absurdity of minimum wage increases become clear.

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