Target’s Wage Floor Shows the Folly in Wage Fixation

Bonnie Furlong started working at Target in Harrisburg, Pennsylvania, more than seven years ago. Today, however, she’s making the same as new hires and less than she was before the Minneapolis-based retailer raised its wage floor to $13 an hour in June of last year.

“The last time they raised it, they cut our hours, so I’m basically making less than I was before they raised it to $13 an hour,” Furlong recently told *The Guardian*.

Target’s wage floor increase likely pleased those preaching “wage justice,” but it was not exactly helpful to experienced employees who saw their hours slashed to cover wage increases for inexperienced and less qualified workers.

Furlong, who typically worked 32 to 38 hours a week, saw her timecard slashed to 20 hours per week.

“If I wasn’t getting social security, which isn’t very much either, I wouldn’t be able to work there because I couldn’t afford it,” she said.

Furlong’s case was not unique. A simple Google search will turn up dozens of examples of Target employees in similar straits.

“I got that dollar raise but I’m getting $200 less in my paycheck,” an employee named Heather told CNN, explaining that her hours had been cut from 40 per week to about around 20.

Heather was one of nearly two dozen Target employees who told CNN they saw their hours slashed following the company’s wage increase.

Tradeoffs and the Folly of “Wage Justice”

Target, which announced a goal of hitting a $15 wage floor by the end of 2020, was no doubt responding to pressure from Fight for $15, a well-organized labor movement advocating a $15 wage floor for all US workers.

Why $15 an hour? It’s a good question. The answer is no reason at all. As economist Antony Davies and political scientist James Harrigan pointed out, the $15 figure was simply an arbitrary number political organizers plucked from the sky because of its monetary and alliterative appeal.

Wages, however, are not arbitrary. They are closely linked to productivity, which is why economists say the best way to boost wages is to boost productivity, whether through capital investment, training, or otherwise. By raising its wage floor without increasing productivity, Target was simply benefiting one segment of its workforce (new hires and inexperienced workers) at the expense of another (experienced and higher-skilled workers).

To be fair, Target did *try* to increase productivity. Take the case of Marie Biggs of Dallas, who worked at Target for 14 years.

“I planned on retiring from Target,” she told *The Guardian*. “They more than doubled my workload, cut my hours.”

Simply demanding workers do more work in less time is an attempt to increase productivity, if not a particularly effective one. (Capital investment, training, and education are generally sounder methods.) But Target didn’t just increase Biggs’s workload while cutting her hours. The company also eliminated her benefits (Target only offers health insurance to workers who meet a 30-hour per week threshold).

The result? In July, while Fight for $15 champions were still reveling in their political victory and talking about raising the federal minimum wage to $20 an hour, Biggs quit. Target lost an experienced employee, and Biggs was out of a job.

It’s a sad story, but it’s also a predictable one. Economist John Phelan last year noted that employers respond to arbitrary wage increases in four ways: 1) they cut employee hours; 2) they ask more of workers; 3) they reduce other forms of remuneration; 4) they replace human workers with machines.

Reports show that Target took each of these steps following its wage hike announcement. *The Wall Street Journal* reports the retail giant is adding thousands of self-checkout machines to reduce labor costs.

Workers like Biggs and Furlong saw their hours slashed, benefits reduced, and workloads increased with only a modest bump in hourly pay (or none at all). Thousands of others will simply not be hired, since the price of their labor is too high.

The Moral of Target’s Story

The moral of the story is hard to miss.

“It’s almost as though hourly wages are only one part of a worker’s compensation – and that hiking wages might cause other, unintended consequences,” Eric Boehm dryly noted at *Reason* following news reports of the tradeoffs Target employees experienced.

Indeed.

The truth is, neither politicians nor social justice advocates are in a position to know what employees should be compensated. They cannot circumvent economic laws or magically make workers more productive simply by ordering companies to pay a wage they feel is appropriate .

As Davies and Harrigan explain, “One can’t legislate that a worker earn a living wage any more than one can legislate that a farmer grow enough crops to feed his family—and for the same reasons. The way to increase wages is to increase the value of workers’ labor.”

Sure, politicians and minimum wage advocates can compel a company to pay a certain wage, but any increase in wages will be offset somewhere else? – benefits, hours, jobs? – absent an increase in productivity.

Minimum wage activists might win political points, but their actual results, to quote Milton Friedman, are simply “a monument to the power of superficial thinking.”

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