

# **PROVERTY, MINIMUM WAGE and TECHNOLOGY**

*(The “old” and the “new”)*

**By**

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My background on a family farm explains my political upbringing and the conflict that I see in front of me today. As a six-year-old, in bib overalls and barefooted, I watched the utility poles go in to bring electricity to the farm. It seemed to me everyone worked all the time, ate three huge meals a day and never varied the routine very much, but dairy cows will do that to you. The philosophy was simple and illustrated by this little story.

When in the seventh grade, I was building fence with my Dad. He was hammering the staples in those “damn” hard locust posts. I said, “Are we making any money?” Without looking up and not missing a stroke with the hammer, he responded “Is there something you need?” I said “I guess not.” And then he said “I guess we doing pretty good.”

I cannot resist telling two more stories related to the farm history:

A student at Hope was interviewing for the Baker Scholar Program, and said she was going to work on the mistreatment of child workers in the foreign world. She outlined the conditions—long hours, unsafe environment, sub, sub standard compensation, crowded dormitories, bland food etc. I told her after the interview that I wondered if she would work with me on a project. With her passion and research pursuits, I wanted her to work with me to sue my Father. The farm work was long hours, the bed was just so-so and the upstairs was unheated, the food came with a saying “eat it or go hungry” and I never saw a penny of money. She quickly added that is different!

Dave VerLee, who most all of you know, and I were riding bicycles along the Blue Danube, which is not blue, and wanted us to

compare each others history. He started by asking “Where were you born?” And I said “Mansfield, Ohio.” He said “Me too!” Dave continued, “Which hospital?” I said “Mansfield General.” He said “Me too! Is there any chance you know the doctors name?” “Sure, Dr. Black.” He said “Me too.” “What’s your Birthday?” I said “September 29.” “Mine is October 1.” Even though we live on nearly the same street and have wives named Jane, we were born two years apart.

The reason the story has relevance also goes with the times. Dr. Black was paid by my parents with dressed chickens from the farm delivered monthly. We or none of our neighbors had insurance, except there were a few \$1000 life insurance polices around—because my uncle sold life insurance. When someone got sick or went on vacation, heaven forbid, the neighbors took over. As times got tough, the garden got larger, butchered one more hog and you made it through. The system was self-controlled and the safety net was the neighborhood. The people were responsible. Being reliant on government was never discussed.

Going from the rural culture, which then accounted to nearly 80 percent of the population, decades later to less than two percent today, was a major problem. Stacking people in urban settings and buildings that rose to ridiculous heights created a system that if things got tough, your options were very few. It is/was tough and you had little or no control.

The middle-class work ethic is very alive in me from my past and it is still there. But even our farm community understood risk, uncertainties and hardship in our community and good neighbors, the church and family came to the rescue. Even with my suggestions for change, that should never change.

In many ways we were very fortunate, but the Industrial revolution, urbanization, The Information Age, Globalization and technology changed it all. Telling my grandkids about the “good old days” is all most humorous.

In 1960, the year I received my doctorate at OSU, a car load of graduate students from Ohio State University decided to go to the University of Chicago to hear Milton Friedman speak and he gave a hint of what was

going to be part of his new book “Capitalism and Freedom” in 1962. I have listened to Dr Friedman on several occasions since that day. I liked his mind, his comfort in stating his position, and he believed if a social problem existed in the United State it was a people’s problem to solve and that included government. It was definitely not a political problem to divide, conquer, stonewall or ignore.

Here are the premises for this paper. The topic is so very large. This paper is not exhaustive. It gives a point of view—mostly mine, but I am deeply affected by Milton Friedman. I also realize these thoughts would not get me elected, even if I so desired.

1. The social welfare system is out of control and incredibly expensive. There are 83 agencies in overlapping programs that cost around \$1 trillion dollars per year, state and federal. I actually do not believe we know the total cost.
2. Just like in the “old” farm community, bad things happen to good people and if you could not help yourself, the neighbors made sure things continued to roll. It was the people’s problem and duty then, and it still is, and that includes our government! There must be a minimal economic parachute system.
3. I do believe that corporations and businesses should have a “triple Bottom Line” attitude—meaning social, environmental, and financial. But, I am changing my mind about two particular items. Businesses should not be the social guardians of the community, state, and nation. The actuarial statistics do not fit the magnitude of the problem. All businesses should have the “Triple Bottom Line” goal, but government mandating to big and small groups is not a solution for me. Therefore, I do not believe healthcare, minimum wage and unemployment should the responsibly of businesses.
4. I do believe we have better alternatives.
5. And technology is available to control and monitor a run-away social-welfare system.

### **The “Welfare” Dilemma**

Everyone wants to help the poor, but the dollar amounts are truly staggering. A Senate Budget Committee report states that there are 83

overlapping government welfare programs that together represent \$1.03 trillion in spending by the state and federal government, based on data from the Congressional Research Service (CRS). The report says, “The total means-tested welfare spending is currently the single-largest category of spending in the federal budget.”

This means that welfare cost in this country has reached a point where they account for more than the sum of what the nation spends on Social Security, Medicare, or national defense---the amounts spent on welfare equals the budget for defense and Medicare combined.

Of the \$1.03 trillion, it is approximately 70 percent federal and 30 percent state government. I believe there are local government expenditures that are not included. I did not pursue this in the paper.

The \$1.03 trillion figure does not include entitlement programs to which people contribute like Social Security and Medicare, nor does it include government veterans programs.

It also states in the report, that the federal share of spending on these federal programs is up 32 percent since 2008 and now comprises 21 percent federal outlays. That compares to 4 percent under the Administration of John F. Kennedy.

The report adds that spending on the 10 largest of the 83 programs has doubled as a share of the federal budget over just the last 30 years. In inflation adjusted dollars, the amount expanded on these programs has increased by 378 percent over that time.

I propose that all welfare programs, both state and federal, be phased out. There are over 114 million families receiving welfare payments; in round numbers approximately \$8,000 per family. Here are some things to consider:

1. The amount is large at \$1.3 trillion per year—maybe more.
2. Some have counted 83 different programs—there is massive overlap.
3. It is difficult to determine the administrative cost of this uncontrolled sector, but it has to be in double digits—probably

- 10-15 percent. I shudder to think about the cost because it could be much larger. Every percent is \$10 billion dollars per year.
4. Programs are overlapping.
  5. Once awarded benefits, which are difficult to monitor, continue beyond intended purpose. In other words they tend to never stop.
  6. Welfare agencies are entrepreneurial, they actually recruit for more clients.
  7. You finish the list

### **Negative Income Tax**

I propose a Negative Income tax. To get into this discussion, I need to first define a Negative Income Tax or a Negative Income Tax Program-- this is where I get back to Milton Friedman. I was surprised to learn in my research, he was not the first. In economics, a negative income tax is a progressive income tax where people earning below a certain amount, receive supplemental pay from the government. Such a system has been discussed by economists but never implemented. However, the United States does have EITC which I will discuss later. The concept was developed by a British politician Juliet Rhys-Williams in 1940 and later by United States economist Milton Friedman.

A NIT is intended to create a single system that would not only pay for government, but would also fulfill the social goal of making sure that there was a minimum level of income for all. It is theorized that, with the NIT, the need for minimum wage, food stamps, welfare, social security programs and other government assistance programs could be eliminated, thus reducing the administrative effort and cost to a fraction of what it is under the current system, as well as eliminating the perverse incentives created by those overlapping aid programs, e.g. when a minimum wage worker who earns a little more, nets out with less income because he is newly ineligible for aid. The worker is stuck in a welfare trap and has no incentive to seek higher wages.

A NIT does not disrupt low-wage markets, whereas a minimum wage makes certain very low end jobs impossible (as anyone whose labor is valued at less than minimum wage must be unemployed). A NIT would therefore increase the availability of cheap labor, which would

enable businesses to do domestically some of the work which they would otherwise have to source to other countries.

The NIT is also expected to have an immediate stabilizing effect as well as a positive influence on the cycle of economic “boom bust” (during recession, the minimum income aids individuals’ confidence whilst businesses are aided by option to lower wages).

The above is more a definition from 1960-62 period. There are even more compelling factors occurring today. Originally, it was targeted approximately 50 percent of the wage to those that pay minimum taxes. That benchmark still looks relevant today.

### **Earned Income Tax Credit**

This program exists today. Quoting from the Center on Budget and Policy Priorities, EITC was based on and has its roots in a concept from conservative economist Milton Friedman several decades ago.

The EITC has become an increasingly important tool to make work pay more than welfare and enough to lift people working full time at minimum wage out of poverty. Research has demonstrated the EITC’s effectiveness. Nobel laureate (and noted conservative economist) Gary Becker has written, “ Empirical studies confirm... that the EITC increases the labor force participation and employment of people with low wages because they need work in order to receive this credit.” Becker also has applauded the EITC for being “fully available to low income families with both parents present, even where only one works and the other cares for their children.

### **The Logic Does Not Work for Me**

The solution is a three-legged stool: Leg One - the poor, unemployed, under-employed, welfare dependent, and a majority with little or no state or federal income tax liabilities. Leg two - the government and Leg Three - employers.

**Now:**

1. Current welfare system, in its broadest sense is more than an underpinning parachute. It has developed into a culture that is motivating or sustainable. It is massive:
  - a. More than \$1.03 trillion
  - b. 114 million families
  - c. But, from an economic point of view, it is the “Supply” of labor that is available.
  - d. Currently we have the thought that if you work, we will help with a reasonable life style. If welfare, with all of its fraud and miss-use is too good, the “Supply” is dramatically reduced. Persons would prefer not to work.
  - e. The NIT is just the reverse of this thinking, the parachute of the NIT designed to provide basics is not a “No work” culture
2. Government:
  - a. Mandates minimum wage
  - b. Mandates minimum conditions for health care
3. Employers
  - a. Obey the conditions

The economic model seems confused by the priorities. Even the current EITC, that is working, is the wrong premise. To receive the EITC, you must be employed. In my opinion, it impacts far too few people.

**Proposal:**

1. First, stop all welfare programs, state and federal. This does not include Social Security, including disability, or Medicare
  - a. Approximately 4-6 percent fraud. This alone is \$50 billion per year
  - b. Miss-use is impossible to calculate. Probably 2-3 times the fraud level which is documented (\$100-200 billion)
  - c. Major cost. Overhead cost of welfare agencies is probably in the double digits which adds another \$100-200 billion.
2. State and Federal Government would implement the NIT-- simultaneous with eliminating welfare:

- a. NIT uses the same 1040 system only in reverse. If you fall below a prescribed level of income, you receive a payment from the government. It is a progressive tax program. The program studies usually are pegged at a standard of 50 percent of normal taxpaying workers in the category.
  - b. In-other words, welfare with NIT, comes first. Not get a job and then get assistance.
  - c. NIT payments do not give individual freedom, only a parachute
  - d. Currently, the IRS system costs approximately .6 percent.
  - e. There would be massive savings
3. Employing organizations would no longer pay
    - a. Minimum wage
    - b. Health care
    - c. Unemployment
  4. Employing organizations are the only demand-side we have. They are hampered by current policies.

## **Technology**

Current technology changes everything. Remember, we would implement the NIT in lieu of other welfare programs that put cash directly into hands of qualified needy. So by definition NIT, or a welfare substitute, is awarded regardless of whether you are employed or not. Since NIT comes first, it is a basic parachute not adequate without employment

There are several reasons that we are organized with “work first, then we will help you”:

1. The work ethic is part of our deepest of principles.
2. Welfare is out-of- sight and out-of-mind. We know its there, but want little to do with it
3. No economical way to police or control welfare

The NIT will pay you the monthly parachute stipend directly to a bank account. Okay. It may be weekly. You will receive a debit card for that



money. Now that we are able to program smart cards, the records of the smart card are your auditors.

I need to take a break here and talk about a Hope College Student in the entrepreneurial program. She developed the idea for college students to have a debit card that was mutually agreed upon and programmed by her and her parents. The card would work for acceptable categories and certain limits would be put on each category. She presented her plan to MasterCard and they were impressed with her idea, but they already had a similar development underway . She was given a small stipend and her idea became theirs also.

The NIT card can function the same way. The categories would be developed and limits on the amounts that could be charged to each. There would be parachute categories like:

1. Rent
2. Food Clothing
3. Utilities
4. Fuel
5. Etc.

NIT does not develop into a culture. It would never give out the same or nearly the same standard of living as if you were employed. It is restrictive, limited, and traceable with an undeniable record. It is not nor should it be considered a key to individual choice and freedom. A wage gives you this kind freedom. This is a critical point. Let me repeat it in a different way:

I think we have to reverse our thinking. Currently we want employment to be the driver and charity and social programs to round out the basic needs. What has happened is that social programs have created a passive culture. Since it is not really managed or controlled, the layers and layers of possible assistance offer a culture where employment is a judgment decision not a necessity.

To me the NIT releases the labor supply to actually work. Therefore, “parachute” is the basis of the program. But, it is not a comfortable living. Working is a must and provides individual freedom, not the social programs.

## “Labor Demand Side”

Having worked in setting up a business in Africa, the phenomenon in the business world there is striking. There are two worlds in that country, the advantaged and the disadvantaged. The entrepreneurial group of the advantaged finds it much more profitable and much easier to develop their business model around international sourcing rather than deal with the massive number of unemployed or under-employed. There are two economies with a growing gap in-between. The disadvantaged have their own entrepreneurial efforts. It is very difficult to imagine where this leads.

Quite unintentionally, the United States is creating a similar divide. Necessary social programs have created more than was ever intended -- an anti-culture to the work ethic that propelled America’s growth and built the middle class. Social programs have taken on a life of their own. Not only are today’s social programs a “parachute” program, but they have created a culture of “some” freedom. Just enough to make a judgment call about getting a job—too often the decision not to work wins out. The U.S. has programs if you do not work and programs if you do work. The sentiment in this country is work, help yourself, or you do not deserve a handout. I only wish this was workable.

Earlier in the paper I indicated I did not believe that employer organizations should carry as much social responsibility as is now the case. It places so much “weight” on the organizations shoulders that the “Risk Co-efficient” puts organizations in a “no growth or maintenance mode” when it comes to future plans. My very first paper in the Holland Professional Club was based on the book “Grow or Die” by George T. Locke Land. I have attempted to launch in to it again!

Organizations now pay:

1. Health Insurance or part of...
2. Minimum Wage
3. Unemployment
4. Workers Compensation
5. Maybe more.

I propose these programs, especially minimum wage, health insurance and unemployment be stopped, and that NIT becomes the “parachute Program”.

The “employing organizations” must be freed to hire more and more people from this target group. But, you are not around businesses much anymore without hearing how cost of programs of employees beyond wages is affecting the strategic plans of businesses. The “non-wage” costs are on an escalating curve and profits are slowly eroding. Wage lowering decisions are being made everyday, whether it be robots, outsourcing or whatever.

The unintended dilemma is the “the supply side” of the targeted group is being overly sheltered. And now the “demand side” is being overly burdened. The labor market is operating in low gear, forcing decisions that are not aiding the economy.

There is another paper associated with this topic, which is even more important; that is the velocity of money and economic multiplier of employed people. I can save you the question - employed workers in a manufacturing business have a Multiplier Impact of 4.0-7.0 times the wage paid. With social programs it is probably below 2.0.

Everyone is aware that college intern students wanted wage protection, no more free interns. Football players consider themselves employees and want wage protection, etc, etc. There should be a labor market basically controlled by supply and demand. Start up businesses, interns, small business ventures understand “sweat equity”. Bringing basic manufacturing back to the U.S. must be real. Corporations want workers that are willing to work, willing to be trained and they will be compensated. Barriers on both the supply and demand sides must be reduced dramatically to permit a labor market to exist.

I am not sure I have a concluding comment, but to assure you that the dollars exist, but are misdirected. And just image if the proposed program only brought 2-3 percent of the targeted group (could be easily 10percent) into employment with willing employers, there would be 1-2 million new workers.

