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How to Raise Salaries

Every entrepreneur, whether rich or poor, takes advantage of (exploits, if you will) his surrounding circumstances—for example, cheap labor.

God made the world poor: without houses or electricity, bridges or highways, without plastic or penicillin. The state of wealth evolves from constructive human action that gradually raises the human condition from its natural state of poverty to the artificial state of wealth.

The relative state of wealth (or poverty, if you will) in which a people finds itself at a given moment cannot be ascribed to the current generation, those who will determine the use of its resources from that moment on. Rather, it is the result of the degree of good judgment of past generations; living generations can do nothing to change the actions of their dead predecessors or their own past mistakes. For this reason, government policies should not be punitive in nature regarding past actions. The past is gone, and what matters is the future. Otherwise, justice becomes vengeance.

An overall situation of cheap labor at a given moment reveals a lack of job opportunities that would increase the demand for workers. Such a situation is not caused by those who are already offering opportunities. It comes about because not enough people are offering—not yet supplying—jobs. Of course, we have no way of knowing exactly who would invest their time and resources in the poorest place and thereby increase the supply of jobs (because they lack more attractive options elsewhere).

It is not that the poor have nothing to do with their time. Where there are poor people, there is much to be done. The problem is not enough capital to create those opportunities that would increase everyone's productivity and *allow* salaries to be pushed up.

Salaries will never increase if you forbid low salaries by law (if you use the law to eliminate "bad" employment opportunities). Such measures only decrease the demand for workers, thus lowering the salary of those who remain employed. These measures also eliminate jobs for which people are unwilling to pay the legally imposed price (salary) because they can't afford it. Just because a law prohibits payment below a certain amount for a given service doesn't mean the service will become more valuable in the eyes of those who can forego its purchase.

There are two ways to eliminate "bad" jobs: prohibition or substitution with better jobs. The first is the only one a government can actually carry out. The second, it can prevent, unless the government becomes a producer. In which case it will be subject to the same constraints as any private entrepreneur and will have to act accordingly to be competitive; that is, to be economically efficient. Otherwise, it will have to establish monopolies through the use of force to protect its noncompetitive businesses from failure and to be able to charge consumers higher prices than they would pay private companies (lower their standard of living). That price difference is equivalent to a tax on consumers and pays for the subsidies used to cover up the inefficiencies that result from forcibly disregarding the constraints that present circumstances would place on private enterprise. Either way, what would be the point for the state to raise salaries if that forced prices to rise?

Thus, government as government has only two means to raise salaries: provide security and guarantees for property and contracts, and abstain from limiting the mobility of workers and salaries.

As I mentioned, those who offer jobs at the prevailing low salary level are not responsible for that low level. At fault could be those who criticize and protest against people that provide some level of employment, who don't offer better jobs themselves but rather blame others and with their criticism contribute to the creation of fewer jobs. Someone who offers a job is under no obligation to do so—no one is. The job offered, by virtue of the fact that it is accepted, constitutes some measure of improvement over the current opportunities available to whoever takes it.

It would be unprofitable if, through government force or clerical persuasion, it became impossible to take advantage of cheap labor at a given point in time. *Because it is precisely this effort to take advantage of cheap labor that holds the only hope to make it disappear*. In other words, the way to eliminate the disturbing situation is in the very attempt to exploit it; and it is the attempt to prevent exploitation that causes it to endure.

Investment in more lucrative crops ends up displacing workers from jobs in less lucrative crops. How? By offering to pay workers more. It is what happens in every type of activity.

We can produce a thing by machine (much capital and less labor) or by hand (much labor and scarce capital).

Where the *available capital per worker* is high, man-hour productivity is high and costs are low, despite high salaries. This is why the country with the highest salaries has the most abundant and cheapest grain production in the world. The proof is in the fact that everyone buys grain from this country.

Where the *available capital per worker* is low, prices will be low only if salaries are low because labor is the highest input resource and the one that most affects cost. If salaries were high, prices would be equally high.

Where capital is abundant in relation to labor, the opposite occurs. Due to its abundance, the remuneration for capital ends up relatively low. On the other hand, remuneration for labor is higher because capitalists have to compete with each other to get it and to keep it; if they want to make their capital produce they have no alternative but to raise salaries.

The process applies to any economic system: socialist, communist, or capitalist. The differences lie in (1) who owns the capital, and (2) that only capitalism allows competition (albeit imperfect) so efficiency can be measured. Any system that ties political power to economic power under a single monopoly makes it impossible to know if the system is efficient or not.

In conclusion, the attempt to increase salaries by decree or to prevent exploitation of a currently low capital to labor relationship does not help raise the standard of living of a population. Only by increasing capital can you increase real salaries—i.e., raise salaries without raising prices. Discouraging those who offer the best jobs right now dissuades others from offering good jobs in the future. It neither increases the demand for workers nor encourages capital investment.

Translated from the original Spanish
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