Higher Minimum Wages

In his State of the Union address, President Barack Obama proposed raising the minimum wage from $7.25 an hour to $9 an hour. That would be almost a 25 percent increase. Let's look at the president's proposal, but before doing so, let's ask some other economic questions.

Are people responsive to changes in price? For example, if the price of cars rose by 25 percent, would people purchase as many cars? Supposing housing prices rose by 25 percent, what would happen to sales? Those are big-ticket items, but what about smaller-priced items? If a supermarket raised its prices by 25 percent, would people purchase as much? It's not rocket science to conclude that when prices rise, people adjust their behavior by purchasing less.

It's almost childish to do so, but I'm going to ask questions about 25 percent price changes in the other way. What responses would people have if the price of cars or housing fell by 25 percent? What would happen to supermarket sales if prices fell by 25 percent? Again, it doesn't require deep thinking to guess that people would purchase more.

This behavior in economics is known as the first fundamental law of demand. It holds that the higher the price of something the less people will take and that the lower the price the more people will take. There are no known exceptions to the law of demand. Any economist who could prove a real-world exception would probably be a candidate for the Nobel Memorial Prize in Economic Sciences and other honors.

Dr. Alan Krueger, an economist, is chairman of the president's Council of Economic Advisers. I wonder whether he advised the president that though people surely would be responsive to 25 percent increases in the prices of other goods and services, they would not be responsive to a 25 percent wage increase. I'd bet the rent money that you couldn't get Krueger to answer the following statement by saying either true or false: A 25 percent increase in the price of labor would not affect employment. If anything, his evasive response would be that found in a White House memo, reported in *The Wall Street Journal's* article titled "The Minority Youth Unemployment Act" (Feb. 15), namely that "a range of economic studies show that modestly raising the minimum wage increases earnings and reduces poverty without measurably reducing employment." The *WSJ* article questions that statement: "Note the shifty adverbs, 'modestly' and 'measurably,' which can paper over a lot of economic damage." My interpretation of the phrase "without measurably reducing employment" is that only youngsters, mostly black youngsters, would be affected by an increase.

University of California, Irvine economist David Neumark has examined more than 100 major academic studies on the minimum wage. He states that the White House claim "grossly misstates the weight of the evidence." About 85 percent of the studies "find a negative employment effect on low-skilled workers." A 1976 American Economic Association survey found that 90 percent of its members agreed that increasing the minimum wage raises unemployment among young and unskilled workers. A 1990 survey found that 80 percent of economists agreed with the statement that increases in the minimum wage cause unemployment among the youth and low-skilled. If you're looking for a consensus in most fields of study, examine the introductory and intermediate college textbooks in the field. Economics textbooks that mention the minimum wage say that it increases unemployment for the least skilled worker.

As detailed in my recent book *Race and Economics* (2012), during times of gross racial discrimination, black unemployment was lower than white unemployment and blacks were more active in the labor market. For example, in 1948, black teen unemployment was less than white teen unemployment, and black teens were more active in the labor market. Today black teen unemployment is about 40 percent; for whites, it is about 20 percent. The minimum wage law weighs heavily in this devastating picture. Supporters of higher minimum wages want to index it to inflation so as to avoid its periodic examination.

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