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Hike in Minimum Wage Maximizes Hurt to Most Vulnerable

Item: *The White House website, in its "Raise the Wage" section, quotes President Barack Obama's State of the Union address in early 2015, again calling for an increase in the federal minimum wage, saying that "nothing helps families make ends meet like higher wages" and calling for giving "millions of the hardest-working people in America a raise."*

Since the president's initial "call to action in 2013," says the White House, "18 states and Washington, D.C. have passed laws to raise their minimum wage — benefiting millions of American workers."

The White House went on to assert: "On average, a full-time minimum wage worker makes $14,500 a year, which leaves too many families struggling to make ends meet."

Item: *In April 2016, legislation was signed in both California and New York that requires state minimum wages to be set incrementally to $15 an hour. At the time, California state Senator Mark Leno, a San Francisco Democrat, issued a statement, promising: "Today's landmark agreement will lift up poor Californians and give hardworking employees the resources they need to put food on the table for their families."*

Similarly, New York's Democratic Governor Andrew Cuomo issued a statement on April 4, declaring: "By moving to a $15 statewide minimum wage and enacting the strongest paid family leave policy in the nation, New York is showing the way forward on economic justice."

Item: *The website of the U.S. Department of Labor says it "supports a wide variety of programs to ensure that all youth have the skills and training they need to successfully make the transition to adulthood and careers."*

Elsewhere on the site, the Labor Department offers a number of (rather ineffectual) "Minimum Wage Mythbusters."

The government's propagandists set up a few straw men and then attempt to knock them down. It is a "myth," says Labor, for example, that "increasing the minimum wage will cause people to lose their jobs" — apparently because it found a letter that many economists signed and sent to the president that downplays its negative effects.

Another "myth" offered by Labor is that "increasing the minimum wage is bad for the economy." Here, in its entirety, is what passes for the self-rebuttal: "Not true. Since 1938, the federal minimum wage has been increased 22 times. For more than 75 years, real GDP per capita has steadily increased, even when the minimum wage has been raised."

Correction: The fact that the national economy, bolstered by the efforts of hundreds of millions of Americans, has survived certain misguided federal actions does not validate the irrational policies.

The Labor Department's case sounds a bit like a teenager foolishly arguing with his parents that he should be allowed to continue to drink and drive because he hasn't killed himself yet.

The Gross Domestic Product of the United States has kept moving *in spite of* the government's practice of wage control.

The spurious claims out of Washington and many state capitals also ignore the harm caused by keeping the gateway blocked to many Americans who are seeking higher-paying work. They are being priced out of the opportunities to gain experience and skills. As it is, the current rate of teen unemployment is about three times that of the national rate. Making it more expensive to hire less-skilled workers is not a solution.

If there were truth-in-labeling requirements for such legislative bills, they would have names such as the Guaranteed Unemployment Act for the Poor, Young, Low-skilled, and Minorities.

There still is, government's promises notwithstanding, no free lunch. Certain New York legislators may think they have magic wands, but realistic businessmen know otherwise. When something costs more, less is bought. That's an economic law within the labor market as well as in other markets.

Zack Hutchins, director of communications for the Business Council of New York State, told the *Daily Signal* that the latest legislative move in New York is "too much, too fast." And to be able to accommodate the resultant cost increases, said Hutchins, businesses will have to cut hours, hire and keep fewer employees, reduce benefits, and increase prices, and "ultimately, they can make the determination that they no longer have a viable business model" and close.

Those most hurt, as often is the case, are those who are supposed to be beneficiaries. Meanwhile, the president would have us believe that it is primarily the heads of households that are those making minimum wages. In actuality, according to the Bureau of Labor Statistics, less than four percent of the hourly workforce earns at or below the minimum. Most of those working for minimum wages are under age 25.

Still, most Americans began working at or below minimum wage. However, as noted by James Sherk, a research fellow of labor economics at the Heritage Foundation in Washington, D.C., relatively few stay at that level — with about two-thirds of minimum-wage workers earning raises within a year, typically around 24 percent.

But you need a job to get a raise. Freeman Hrabowski, president of the University of Maryland, Baltimore County, and Jamie Dimon, the chairman and CEO of JPMorgan Chase & Co., penned a piece in *USA Today* earlier this year that described part of the problem. As they noted, more than five million "young people, including one in five African-Americans and Latinos, are neither working nor in school. The youth unemployment rate is over 11 percent; for young African-Americans it jumps to over 20 percent."

Such people need employment — not to hear that the jobs that they don't have may eventually pay $15 per hour.

The new California increase will penalize teens and youths even more than do socialist nations, according to Sherk. California doesn't have a lower minimum for younger workers; Luxembourg, Australia, and France at least have that. "California is proposing a historically unprecedented minimum wage increase. No country in the developed world has raised their minimum wage that high," Sherk pointed out in April. "Even left-leaning European governments that embrace activist government labor market regulation understand raising the minimum wage that high would hurt vulnerable workers," he noted.

And Los Angeles is requiring a hike two years earlier than California as a whole. As a result, as pointed out by commentator Arthur Schaper:

Young people will see entry level opportunities disappear. Businesses will hire robots instead, or watch a vast [number] of non-intellectual property professions ditch California.

Fast-food restaurants are already experimenting with automation. A McDonald's in Arizona was already using automatic kiosks for taking orders. Grocery stores have self-check kiosks for small orders. Will shoppers find robots scanning their goods in the near future, too?

The inanity of these government interventions in to the marketplace is just mind-numbing.

Nearly half of all current minimum-wage earners are teenagers or youngsters still living with their parents, as has been pointed out by the Employment Policies Institute. Many of the young people who will next be seeking work are not going to find jobs available because it will not make economic sense to employ them.

Yet the president is a major backer of the "Raise the Wage Act" that would push the federal minimum to $12 by 2020. That is the same figure being promoted by Hillary Clinton in her campaign. Senator Bernie Sanders doesn't stop there. He would double the current minimum, mandating a $15 national minimum wage.

Yes, you can find economists who will back such a reckless position. Self-described socialist Sanders has unearthed many economists who claim that such elevated minimums will be an "effective means of improving living standards for low-wage workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed."

The vulnerable would be far better served by heeding the message of Nobel-Prize economist Milton Friedman, who observed: "The real tragedy of minimum-wage laws is that they are supported by well-meaning groups who want to reduce poverty. But the people who are hurt most by high minimums are the most poverty-stricken."

There are, to be sure, economists with common sense. Walter Williams, a professor at George Mason, is an excellent example. He also recognizes, as he wrote in a syndicated column earlier this year, that those people

who are harmed by an increase in the minimum wage are low-skilled workers. Try this question to economists who argue against the unemployment effect of raising the minimum wage: Is it likely that an employer would find it in his interests to pay a worker $15 an hour when that worker has skills that enable him to produce only $5 worth of value an hour to the employer's output?

Unlike my fellow economists who might argue to the contrary, I would say that most employers would view hiring such a worker as a losing economic proposition, but they might hire him at $5 an hour. Thus, one effect of the minimum-wage law is that of discrimination against the employment of low-skilled workers.

Professor Mark Perry, who is a scholar at the American Enterprise Institute, maintains that many economists really are concerned about those Americans with low skills. He puts himself in that company, saying that is why they would rather

see unskilled workers employed at a market wage — even if that wage is only $5, $6 an hour — that allows them to gain valuable work experience and on-the-job training, than to be unemployed at $0.00 an hour. And unfortunately, a $15 minimum wage maximizes the probability that an unskilled worker will be unemployed at $0.00 an hour instead of being gainfully employed.

Supply-side economist Alan Reynolds — in contrast to all too many pols — is an academic expert who recognizes that, regardless of the laws that might be passed, the actual minimum wage is always zero.

Reynolds, currently a senior fellow at the Cato Institute, has also demonstrated that every time that the federal minimum wage has been increased "the number earning less than that minimum always increased dramatically." And, when the minimum

is pushed up faster than the market would have moved it, the effect is to greatly increase the proportion of jobs paying less than the minimum (including working for cash in the informal economy). Employers offering less than the minimum, legally or otherwise, then enjoy a flood of unskilled applicants unable to compete for scarcer opportunities among larger businesses subject to minimum wage laws. Such intensified rivalry for sub-minimum-wage jobs then pushes the lowest wages even lower.

Politics and self-interest play key roles in the debate. In California, for instance, labor unions found it to their advantage to promote a higher minimum wage because such a move, both directly and indirectly, affects the pay of their members. In this case, organized labor did not even have to go through collective bargaining to scoop up the raises that ensued when the minimum-wage increase was passed. Writing in the *Wall Street Journal*, Michael Saltsman explained what has been going on:

Using Census Bureau data, my organization, the Employment Policies Institute, estimates that roughly 223,000 union members in California will receive a direct pay bump by the time the law is fully implemented.

A majority of the affected employees are concentrated in four industries: retail, health care, education and public administration (i.e., government). Taxpayers in California are on the hook to fund pay raises for the roughly 45% of affected employees who work in the public sector.

It turns out, in other words, that labor bosses are not altruistic. They are interested in protecting their members, their resultant dues, and the political power that they can wield.

If the government forces you to pay employees more than the value they create and if the business is to survive, there will be lower profits, higher prices, or fewer jobs: Someone will have to pay — investors, customers, and/or workers.

Workers are likely to discover that the new higher minimum wage comes with fewer hours, less on-the-job training, or a reduction in fringe benefits, including health insurance. Some jobs will go overseas to countries with lower wages.

If a higher minimum wage is enacted, a person getting a wage hike will be happy. Many others, less obviously, will get the shaft. Or as the late Milton Friedman put it: "A minimum-wage law is, in reality, a law that makes it illegal for an employer to hire a person with limited skills."

— William P. Hoar