CBO Counts Cost of Raising Minimum Wage to $15

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Just a week before the Democrat-controlled House of Representatives is due to vote on its Raise the Wage Act, the non-partisan Congressional Budget Office (CBO) calculated its possible impact on the economy. The bill, if enacted into law (highly unlikely), would gradually raise the minimum wage in the country from its present level of $7.25 an hour to $15 an hour by 2024.

The CBO concluded that, "For most low-wage workers, earnings and family income would increase, which would lift some families out of poverty [for a single person, that level is $1,040 a month; for a family of four, it's $2,145 a month]. But other low-wage workers would become jobless, and their family income would fall — in some cases, below the poverty level."

The CBO did its calculations, and drew its conclusions, based on three different scenarios: raising the minimum wage in stages to $10 an hour, to $12 an hour and to $15 an hour. Raising the minimum wage to $15 an hour by 2025 had the greatest impact on workers and their families: It would boost the pay of an estimated 17 million workers and "could" also raise the pay of 10 million other workers already earning close to $15 an hour. It also would lift 1.3 million workers above the poverty level while sending 1.3 million workers to below the poverty level.

The CBO also made two important points that were missing from the public conversation: 1) "There is considerable uncertainty about the size of any option's effect on employment"; and 2) it would redistribute income from low-wage workers (who would enjoy an estimated $8 billion gain to their family's income) at the expense of business owners and higher-income families who would see their income fall by $16 billion. These losses would result from lower business income and higher consumer prices.

This last point is worth emphasizing. Forgetting (intentionally or not) about the real costs of government's attempt to reward one group at the expense of another group requires employing 19th-century French economist Frédéric Bastiat's "broken window fallacy." As Andrew Beattie explained at Investopedia:

> In Bastiat's tale, a man's son breaks a pane of glass, meaning the man will have to pay to replace it. The onlookers consider the situation and decide that the boy has actually done the community a service because his father will have to pay the glazier (window repair man) to replace the broken pane. The glazier will then presumably spend the extra money on something else, jump-starting the local economy.

> The onlookers come to believe that breaking windows stimulates the economy, but Bastiat points out that further analysis exposes the fallacy. By breaking the window, the man's son has reduced his father's disposable income, meaning his father will not be able to purchase new shoes or some other luxury good. Thus, the broken window might help the glazier, but at the same time, it robs other industries and reduces the amount being spent on other goods.

Bastiat had it right: raising the minimum wage for some incurs higher costs for others. It's those "higher costs" that would be borne by others that many, including House Democrats, refuse to admit. Or, if they do, they consider them insignificant.

To its credit, the *New York Times* did report that the CBO noted that passage of the Raise the Wage Act "would amount to a transfer of income to impoverished Americans, largely from high-income earners. Lower-paid workers would see their incomes rise, mostly at the expense of business owners, who would earn lower profits because of increased labor costs, and other higher-earning Americans, who would pay more for goods and services, like food in restaurants. [In addition] the economy would be slightly smaller than it would otherwise have been."

There are other costs involved in such a move, many non-financial or economic, but costs nevertheless:

• Minimum wage laws violate the Constitution which limits Congress to the exercise only of certain enumerated powers, none of which permit Congress to pass minimum wage laws;

• They violate an individual's right to contract his labor to an employer at whatever wage they mutually freely agree to;

• They reduce the confidence in the free market's ability to allocate limited resources, including labor, more efficiently than government;

• They raise the spectre of lawsuits by those losing their jobs, some of whom no doubt will claim discrimination under other government laws;

• They take jobs away from those whose efforts aren't worth $15 an hour but are happy to work for less;

• They force those now jobless to apply for government welfare, thus raising costs to taxpayers;

• They violate common sense: If $15 an hour works so well, why not $50 an hour? Or $100 an hour, and make every worker a millionaire? and

• They accelerate the robotics revolution, as business owners discover that low-wage positions can be done more efficiently and at lower cost than his employees.

What are the chances for passage? In the House, passage is nearly certain thanks to the Democrat majority. In the Senate, it's highly unlikely that the bill will even come to the floor for debate. And what of the president, if somehow this bill arrives on his desk? Trump is on record as saying that, through his Tax Cuts and Jobs Act, he has "already raised the minimum wage."

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