Is Push by Cities for Higher Minimum Wage a Good Idea?

With the stroke of a pen, Los Angeles Mayor Eric Garcetti gave his approval to hike the minimum wage to $15 an hour, as passed by the city council. The ordinance will increase the minimum wage by $6 an hour, from its current $9, making the City of Angels the latest to mandate such an increase.

The expressed hope of those who pushed through the new law is that other cities will follow L.A.'s example and raise the minimum wage far above the $7.25 required by federal law.

Los Angeles will phase in the higher wage over the next several years, with steps up to $10.50, followed by $12, $13.25, $14.25, and finally to the full $15 amount by 2020, for companies that employ more than 25 workers. Businesses with 25 or fewer employees will lag one year behind the larger ones at each step, with the full $15 mandate not taking effect until 2021.

Beginning in 2022, the minimum wage would then be tied to the Consumer Price Index for Urban Wage Earners and Clerical Workers for the area.

To ensure that businesses comply with the government order, an Office of Labor Standards has been created, with a budget of $500,000. This will pay for a new wage bureaucracy tasked with "fighting wage theft."

Last year, Seattle made national news when it passed a law ordering its businesses to pay the $15-an-hour minimum wage. At the time, free-market economists offered dire predictions as to its effect, and these predictions can, of course, apply to Los Angeles, or any other city that opts to ignore the law of supply and demand.

Those in favor of the government-mandated wage increase also made their own forecasts of the law's effects. For example, the president of the Service Employees' International Union (SEIU), David Rolf, happily predicted that the minimum-wage increase would put nearly $500 million into the economy of Washington State, "proving that a higher minimum wage fuels business and job growth."

Writing in *Forbes*, Jeffrey Dorman took issue with Rolf's expectation. "Raising the minimum wage adds no money into the local economy," he stated. "It only redistributes money among people who are already part of the economy." He explained that while low wage workers would have more money to spend (if they kept their jobs), business owners and customers of the affected businesses would have *less* to spend.

Dorman's analysis of the Seattle law would, of course, apply to Los Angeles. For example, L.A. intends to phase in the wage mandate. The thinking is that businesses can better absorb the increase over time, rather than all at once. However, as Dorman explained, "The more likely outcome is that the three to seven years transition period will allow businesses time to find ways to run their companies with fewer low-skill workers." Customers already have seen an increase in some national restaurant chains installing technologies that reduce the need for human wait staff.

Other strategies that businesses can expect to use include the reduction of certain “fringe” benefits for employees, such as health insurance, paid holidays, free food, free parking, and vacation time. Some wait staff have noted that customers tend to tip less, thinking the higher minimum wage takes care of the employees.

Recent “marches” have taken place in more than 200 cities — including Boston, Atlanta, and New York — with demonstrators arguing that a steep increase in the minimum wage is part of a larger movement for “social justice.” Many low-wage workers actually walked out of their jobs to join the marches.

Democratic presidential hopeful Hillary Clinton tweeted her support. “Every American deserves a fair shot at success,” she insisted. “Fast food & child care workers shouldn’t have to march in streets for living wages.”

Now that Seattle’s higher minimum-wage law has been in effect for several months, some of its predicted negative effects can be seen. Restaurants are struggling. Several have closed,and others have raised menu prices, cut back on ingredients, and, of course, reduced the number of employees.

The pages of history are replete with examples of how government tampering with wages and prices — instituting either wage ceilings or floors — distorts economic activity and harms individuals.

The mandate of wage-control ceilings during World War II led businesses to attract labor by offering fringe benefits such as health insurance. Of course, this in turn caused many of the problems in today’s healthcare financing, such as soaring costs, and workers feeling chained to their jobs in order to maintain their health insurance.

On the other hand, President Herbert Hoover’s pressure on business not to *cut* wages in the early years of the Great Depression contributed to ballooning unemployment. Later, President Franklin Roosevelt’s government incredibly once even ordered a tailor to be jailed for pressing a suit for a nickel less than the government dictated.

Writing in his classic book *Economics in One Lesson*, Henry Hazlitt — journalist and economist of the Austrian School — gave a lucid explanation to the problem with minimum wage laws. “We cannot distribute more wealth than is created,” he wrote, adding that “Real wages come out of production, not out of government decrees.”

In ancient Babylon, Hammurabi decreed the politically correct wage level for field laborers, herdsmen, potters, tailors, carpenters, rope makers, and others. As Robert Schuettinger and Eamonn Butler commented on this ancient effort at minimum-wage laws in their book *Forty Centuries of Wage and Price Controls*, “It appears that the very people who were supposed to benefit from the Hammurabi wage and price restrictions were driven out of the market by those and other statutes.”

Frederic Bastiat’s classic essay “What Is Seen and What Is Not Seen” illustrates the problem. Some economic effects of government dictates are obvious, while others are not. While some individual employees enjoy the higher wage dictated by government, other unfortunate souls are not even able to get a job, because business owners won’t hire them at the higher wage. In some cases, a minimum wage may force the closure of a business altogether. Then, there is the example of a business owner who would have “taken a chance” on a low-skilled, inexperienced person at a lower wage, but opted not to do so at the higher government-mandated wage. All this, as Bastiat noted, is *not seen*.

Why does a business owner hire anyone? The answer should be obvious. He or she believes more money can be made by adding the additional employee than by not. In a strong and growing economy, the minimum wage is relegated to irrelevance, simply because as businesses have a need for more employees to take care of the increased number of customers, they pay higher wages.

In an economic downturn, however, the minimum wage forces the owner to make some difficult choices. While he may *need* an additional worker, with business activity down, he may simply not be able to *afford* another employee. Because of the minimum wage, the business owner often decides he can make more profit by laying off someone. After all, the owner created the business for the benefit of himself and his own family, not to give someone a job. It should be added that a person takes a job for his own benefit, or his own family's benefit as well, not to help the business owner's bottom line.

The cold, hard reality is that if the minimum wage is higher than the market price for a worker, then the business owner has limited options. He can, of course, raise his prices to pay for the additional worker; however, in a stagnant economy this may not be possible. And raising the price of the product might actually lead to even fewer customers, and thus reduced income for the business. If the business owner is unable to get his customers to pay for the higher wage through higher prices for the product, then cutting staff may be an option.

And, as has already been alluded to, some businesses can experiment with technology. After all, if an owner has a machine to take orders, he doesn't have to contend with it calling in sick, or just not even showing up (a common problem in the fast-food industry). If a machine is cheaper than a human being would be after the minimum-wage hike, then a business owner who must think of his own family first, could very well opt to cut staff.

In announcing the minimum-wage increase in L.A., Mayor Eric Garcetti declared, "Today is a major victory for our city, our communities and working Angelenos across Los Angeles." However, the economic reality casts doubt on just how much of a victory it is for both business owners and potential employees.

The truth, as evidenced by history, is that in a free society, wages and prices should be set by the free market, not by government.

Steve Byas is the author of History's Greatest Libels*, set for publication in August. He is a professor of history at Hillsdale College in Moore, Oklahoma.*