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Minimum wage mirage

Bigger checks may push more out of the job force

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July 23, 2009

The federal government is trying to strengthen the U.S. auto industry. So here's a great idea for what it can do: Tell the Big Three to raise their prices across the board.

That would help in some obvious ways. Higher prices would mean bigger profit margins on every sale. Bigger profits would mean more jobs. More jobs would mean more workers buying new American cars. But anyone can see that raising prices wouldn't work, because it would dry up sales. If American consumers were willing to pay more for American cars, dealers would already be charging higher prices. This is such an obviously boneheaded idea that no one would ever dream of doing it.



But in the realm of employee compensation, the federal government is taking that absurd notion and putting it into law. Come Friday, the federally mandated minimum wage will jump to \$7.25 an hour from \$6.55 -- an 11 percent increase. At a time when employers are laying off workers, Washington is going to make it more expensive to keep them.

If you're a minimum wage employee, your job will pay more, but only if it still exists. These days, most companies are scrutinizing every position on the payroll to make sure it's worth the cost. Raise the toll, and some employees will find they are no longer valuable enough to make the cut.

Economists generally agree that increases in the minimum wage cause unemployment even when the economy is prospering -- something it has not been doing for the last year and a half. David Neumark, a professor at the University of California at Irvine, estimates this rise will destroy some 300,000 jobs among teens and young adults.

Even proponents of the increase understand the trade-off. Otherwise they would demand an even bigger hike. If you can force employers to pay higher wages without reducing employment, why set the minimum at \$7.25 an hour? Why not \$17.25? Why not \$37.25?

The suspension of disbelief required to support the minimum wage will only take you so far. It's impossible to deny that if it were illegal to pay someone less than a mere \$36 an hour, a lot of jobs would vanish. But a small dose of poison is still poison, and in this case it's being administered to a patient who is already ill.

Supporters make a virtue of bad timing by claiming the change will provide a stimulus exactly when the economy needs it. The liberal Economic Policy Institute in Washington insists that a minimum wage increase "would not only benefit low-income working families, but it would also provide a boost to consumer spending and the broader economy."

Not likely. Companies, unlike the government, can't create cash at will. Any money they give to workers has to be obtained by cutting jobs, reducing employee benefits or slashing other expenses that happen to be someone's income. Net stimulus: zero.

Besides eliminating minimum wage jobs, the increase stands to have another little-noticed effect: pushing people into jobs that pay even *less*. Some employees are exempt from the law, including those working in newspaper delivery, fishing and seasonal amusement parks, as well as staffers at companies with annual revenue of less than \$500,000 a year.

Doesn't sound like a big group, does it? But in 2008, reports the Bureau of Labor Statistics, 1.94 million Americans were below the "minimum" wage -- compared to 286,000 getting the actual minimum. When the floor went unchanged for 10 years, the number of workers in sub-minimum jobs steadily declined. But in 2007, when the mandate went to \$5.85 from \$5.15, the total climbed by 14 percent, at a time when overall employment was stable.

That's not a coincidence. Economist Alan Reynolds of the libertarian Cato Institute in Washington has found that when the minimum wage went up in 1996 and 1997, the number of workers beneath the floor expanded by more than 75 percent -- even though the economy was booming. It looks like the minimum wage destroys some low-paying jobs and replaces them with lower-paying ones, to the detriment of the people who are supposed to benefit.

Economics punctures alluring myths about the sources of material improvement, which is why it is known as the "dismal science." But the victims of the minimum wage will find that the truly dismal thing about economics is what happens when you ignore it.

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