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Minimum wage increase has opportunity costs

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With all of the discussion about minimum wage increases I thought it would be helpful to put the issue into simple, logical and easy to understand terms. What do opportunity cost and the minimum wage have in common?

Before I answer that question, I will recognize that there are well intentioned individuals who want to increase the minimum wage because they truly do want to help those in need. I respect and applaud their ideals and their intentions. However heartfelt and meaningful they are, their solution to poverty is poorly thought out, if thought out at all. Of course there are those who want to increase the minimum wage for political purposes, both Republicans and Democrats, because they know it will secure them support at the ballot box. And that is nothing short of simple pandering, shallowness and, taken to the extreme, selfishness.

Yes, I could quote study after study that shows how increasing the minimum wage does not lift the poor out of poverty and actually costs jobs. In James Sherk and John Ligon's piece for the Heritage Foundation, "Unprecedented Minimum-Wage Hike Would Hurt Jobs and the Economy", they point out that a "minimum wage hike would likely eliminate 300,000 jobs per year and reduce gross domestic product (GDP) by over $40 billion annually." I could also point out how an increase in the minimum wage in most cases helps teenagers living in a middle income homes rather than the poor.

Furthermore, I could quote study after study that shows how, depending on the study, increasing the minimum wage impacts only a small percentage of workers while having a tremendous negative impact on the entire U.S. economy. Mark Wilson's piece, "The Negative Effects of Minimum Wage Laws", in the Cato Institute's Policy Analysis section points out that only 4.7 percent of minimum wage earners are poor adults working full-time.

There is also evidence that shows how raising the minimum wage actually hurts those it is intended to help the most — those on the low end of the income scale — by reducing not only job opportunities but also increasing the cost of goods and services. This is where I answer the question about what opportunity cost and the minimum wage have in common.

Investopedia.com defines opportunity cost as "the cost of an alternative that must be forgone in order to pursue a certain action. Put another way, the benefits you could have received by taking an alternative action." Raising the minimum wage has opportunity costs. In simple terms, when the cost of labor goes up business has to find that money someplace else, and this is the opportunity cost. There is not a money tree out back where they go grab a few more bucks so they can continue to be productive, sell their goods and services at competitive prices and increase the cost of labor.

Let’s do the basic math on the opportunity cost. If I am forced by government (and this, by the way, is a loss of freedom) to increase what I pay my employees, I will have to do one or a combination of things to make this happen. I may increase the cost of my goods and services and or reduce my workforce. When this occurs it hurts consumers and limits opportunities for those wishing to enter the workforce. But the worst and most negative impact of price increases and job losses is that it is felt by those who can afford it the least — the poor.