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Raising minimum wage will hurt more than help

By: Doug Bandow – April 9, 2013

President Barack Obama wants to give low-wage Americans a raise. Actually, he wants to force other people to give them a raise. It's a bad idea.

In his State of the Union speech President Obama proposed hiking the minimum wage to $9 an hour, a 24 percent jump.

The problem is, companies must earn more than they spend. Workers must produce more than they are paid. As government raises the minimum wage, it prices people out of the market.

The bulk of economic studies demonstrate that raising the minimum wage destroys jobs.

The minimum wage encourages companies to automate and switch to fewer higher skilled, more productive workers who are worth the higher rate.

The Department of Labor concluded that the first minimum wage in 1938 cost the jobs of 30,000 to 50,000 of the 300,000 workers who had been earning below the new minimum. In 1977 Congress established the Minimum Wage Study Commission, which concluded that the "time-series studies typically find that a ten percent increase in the minimum wage reduces teenage employment by one to three percent."

A 2007 review by David Neumark and William Wascher found: "The oft-stated assertion that the new minimum wage research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect. Indeed ... the preponderance of the evidence points to disemployment effects."

Minimum wage fans largely ignored academic research until two decades ago when economists David Card and Alan Krueger — now the President's Chairman of the Council of Economic Advisers — concluded that a recent increase had minimal impact.

However, that rise was modest. Noted businessman Brandon Crocker: "One reason why some have found the data from the 1996-97 more ambiguous is that the minimum wage lagged behind inflation and real wage growth."

Even Card recently admitted: "Of course, if the minimum was raised really high — and enforced — it would likely be a problem. But at reasonable levels the minimum has negligible effects on overall employment." Yet the lower the increase, the less likely that it will produce its advertised benefits.

Moreover, the Card/Krueger study has come under sustained fire. Neumark and Wascher used payroll records rather than telephone surveys and reported that the results were "generally consistent with the prediction that raising the minimum wage reduces the demand for low-wage workers."

When jobs disappear, those with the least education, training, skills, and experience suffer the most. Economists William Even and David Macpherson concluded of the 2005-07 increase: "The consequences of the minimum wage for black young adults without a diploma were actually worse than the consequences of the Great Depression." After the July 2009 increase, reported economist William Dunkelberg, "nearly 600,000 teen jobs disappeared, even with nearly four percent growth in the economy."

Rep. George Miller, D-Calif., argued "that it's very unfair for people working for low wages who can't support themselves."

But what is fair about forcing other people to pay more?

At least the burden should be shared. The Earned Income Tax Credit has problems, but makes all taxpayers pay.

Raising the minimum wage would be both counterproductive and unfair.

It is time to bury this destructive economic panacea.

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