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Economic freedom and minimum wage

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The retail giant Gap announced last week it's raising its starting wage for employees to \$9 per hour this year, and to \$10 per hour next year. That's great — but it's not in any way an argument for raising the minimum wage for everyone.

Gap is free to do what it wants, and its move is clearly a response to market conditions. But that freedom is the key. It's a voluntary measure, not a mandated one.

“Gap said this move would ultimately raise pay for 65,000 of its 90,000 American employees, including those at Banana Republic, Old Navy and other stores,” the New York Times reported. “Gap is making this move as many states consider raising their minimum wage, and as Republicans and Democrats debate a bill that includes a proposed increase in the federal minimum wage to \$10.10 an hour by 2016. President Obama has endorsed the increase, and has campaigned for it at stops around the country.”

James A. Dorn of the Cato Institute points out Gap's move isn't an argument for increasing the minimum wage.

“Gap must report to shareholders and make a profit to stay in business; politicians report to voters and must win elections to stay in office,” he says. “Polls show that the American public strongly support a higher federal minimum wage — but only if it appears to be costless. President Obama, in promoting a higher minimum wage, argues that it would ‘lift wages for more than 16 million workers — all without requiring a single dollar in new taxes or spending.’ This is the free lunch that politicians love to promise — and it is an illusion.”

There are real consequences to raising the minimum wage.

“When the government arbitrarily pushes up wage rates above the competitive level, two things happen: some jobs are lost; and more workers look for jobs but can't find them, so unemployment of lower-skilled workers increases,” Dorn explains. “These effects are greater in the long run as employers switch to labor-saving technology.”

The Congressional Budget Office released a report last week saying that hiking the minimum wage would help many people, but at a cost of an estimated 500,000 jobs.

“Those most affected would be low-productivity workers in low-income families — making them poorer, not richer,” Dorn points out. “If the government promises a wage of \$10.10 an hour but a worker loses her job or can’t find one, then her income is zero.”

Gap is free to do what it wants. And that’s important.

“People do what is in their own best interest,” he adds. “Gap may win some friends by increasing entry-level wages and saying this is in tune with company ‘values,’ but unless that business decision is profitable Gap will lose sales, and its shares will drop in value. There is thus a market test of the decision to raise wages.”

Gap’s move to raise its workers pay is all about economic freedom and responding to market forces. President Obama’s proposed minimum wage hike is the antithesis of economic freedom and working markets.