

Special Report

Immoral and Inefficient

The minimum wage and government sin.

By Doug Bandow – 1.13.14

Democratic politicians are desperate to make up for Obamacare's disastrous roll-out. Thirteen states are increasing their minimums this year, and some Democrats believe raising the national minimum wage is a winning campaign issue for November.

It's hard to predict the impact of new wage proposals on elections ten months hence, though polls suggest that two-thirds or more of Americans back an increase. But there's no doubt that raising the minimum wage would reduce employment and slow economic growth. Worse, government wage-setting is immoral. It simply is unfair and wrong for politicians to posture as philanthropists while arbitrarily forcing other people to pay higher salaries.

Most of the debate over the minimum wage is practical. What is its impact on employment and price levels? And the answer is clear: the cost of higher wages will be borne in varying degrees by customers, workers, and investors. Exactly who loses how much will depend on conditions in the particular industry.

But as Nobel Laureate Milton Friedman observed, there ain't no such thing as a free lunch. Arbitrarily raising the cost of labor — there is no principled basis for choosing any particular government minimum — will increase prices, reduce investor returns, and cut employment levels.

The latter will have the greatest impact on workers with the least education, experience, and skills, who tend to be young and minorities. So long as business is not charity, companies are not likely to pay more than employees can produce. Forcing up wages will not only reduce overall employment, but shift jobs toward higher-skilled workers who are more productive and thus warrant higher pay — which explains strong union support for ever higher minimums. The minimum wage also has encouraged mechanization, since it makes economic sense for companies to invest more in machines to spend less on labor.

In effect, the minimum wage is a tax on labor-intensive companies. In this way government penalizes firms that employ lower-skilled workers. Which inevitably means companies will hire fewer employees. Mark Wilson of Applied Economic Strategies explained in a Cato Institute study: "The main finding of economic theory and empirical research over the past 70 years is that minimum wage increases tend to reduce employment."

Some advocates claim that hiking the minimum would help companies by, for instance, creating greater labor stability. Perhaps in some cases, but companies are free to discover that on their own. In fact, most already pay well beyond the legal minimum.

The strangest claim may come from the *Financial Times*, which editorialized: “a higher wage would stimulate the economy without adding a dime to federal spending.” Other advocates have similarly rhapsodized on how taking money from Peter and giving it to Paul would spur economic growth. For example, Jack Temple of the National Employment Law Project argued that an increase “boosts consumer spending.”

However, to the extent raising the minimum increases the total amount of wages, it does so by *redistributing* the money from other people, who end up with less to spend on consumption. Moreover, even if raising the minimum hikes the wage total, it shifts some of the gains to the better experienced, skilled, and trained at the expense of the disadvantaged. Increasing the minimum is a very odd form of economic stimulus.

No doubt, the employment impact of a small increase, especially if salary levels have been rising, would be modest, which explains recent economic studies demonstrating lesser job loss. Indeed, that’s what the president suggested in his 2006 book, *The Audacity of Hope*: “It may be true — as some economists argue — that any big jumps in the minimum wage discourage employers from hiring more workers.” So he urged a small hike. But the less significant the increase, the less meaningful any potential benefit.

In contrast, those who claim that raising today’s minimum would have no impact on employer behavior fail to demonstrate the courage of their convictions. If government can hike wages without harm, why stop at \$10 or \$15 an hour? Why not go to \$100 or \$150? Or to \$1000 or \$1500? Then everyone in America could be rich and no one would pay anything as a result!

Unfortunately, good intentions are not enough. Before Paul Krugman the economist became Paul Krugman the uber-liberal pundit, he dismissed the illusion “that the price of labor — unlike that of gasoline, or Manhattan apartments — can be set based on considerations of justice, not supply and demand, without unpleasant side effects.”

Yet there is an even more fundamental issue. Anyone who believes that higher wages would be good policy is free to pay however much he desires to anyone he hires. Everyone also is able to contribute to groups which aid the lower-income and disadvantaged. Why should such people have the right to force everyone else to pay more? The minimum wage is the modern perversion of compassion into coercion: I believe there is a moral imperative for you to earn more, so I will force someone else to fork over the cash. I feel moral while sticking someone else with the bill.

Still, minimum wage advocates routinely try to claim the moral high ground. Presidential adviser Dan Pfeiffer called a hike in the minimum a “value issue” of “fairness.” Gary Burtless of the Brookings Institution opined that an increase would be “good to do for fairness.” Rep. George Miller (D-Cal.) contended that “the American public knows that it’s very unfair for people working for low wages who can’t support themselves.”

Union University's Hunter Baker pointed to the tweet from a Christian academic who essentially said, don't talk to me about family values if you don't advocate a minimum wage increase. (Alas, the university professor didn't enlighten us as to how much a hike was necessary to be considered "pro-family." Or offer to increase his charitable giving to help.)

Ron Unz, a conservative activist who is funding a California initiative to raise the state minimum to \$12, complained that companies which pay less are being allowed "to transfer much of the ordinary living expenses of their struggling employees to the government and the taxpayer." Presumably companies that do not pay people enough for them to send their children to private university are being allowed "to transfer much of the ordinary" education expenses "of their struggling employees to the government and the taxpayer." Those that do not pay people enough to care for their parents similarly are transferring retirement costs to the state. Those that are too cheap to offer wages sufficient for a nice home in a nice suburb are transferring housing costs onto the rest of us. And so on.

It's an odd concept: private companies created in a free society by free individuals offering jobs to people free to say yes or no are obligated to cover all of their employees' needs, whatever the rest of us decide the latter should be. Unz disdained the idea that if society wanted to ensure a minimum salary it was society's obligation to pay: "Back when I was younger, I think this notion was called 'Communism'."

Actually, communism means owning the means of production, and a second best to that is government wage-setting (especially if backed by a progressive income tax). Indeed, the second best actually is best for politicians. They can pose as the people's advocates constantly pushing up the minimum while blaming business for anything bad that happens. Taking control of everything and then failing doesn't leave much room for maneuver.

The minimum wage is a classic attempt to both win votes and live better at someone else's expense. It would be very nice if labor intensive businesses employing ill-trained, -skilled, and -educated workers paid above-market wages. Most don't, however. If "we," the citizens of America, believe people should earn more, then "we," the citizens of America, not a few labor intensive businesses, should pay for those above-market wages. Opposing the minimum wage is simple fairness.

While many advocates no doubt are true believers, for some fairness talk is pure twaddle. Instead, politics rules supreme. John Cassidy wrote in the *New Yorker*: "In the current political environment, there is little chance of pushing through another hike in income-support programs. Raising the minimum wage pushes the burden onto corporations and consumers." Oddly, Cassidy did not indicate what he was doing personally about what he considered to be a grave injustice.

The government's best attempt to better reward work without penalizing employers is the Earned Income Tax Credit, which makes all taxpayers pay. The EITC has problems, notably widespread fraud. But *Washington Post* columnist Charles Lane argued that it is more appropriate to promote poverty relief "through a transparent tax-code subsidy that falls on the public as a whole

— rather than the minimum wage, which works like an invisible tax businesses passed along to workers and consumers.”

Moreover, Washington would be systematically reducing, not increasing, the cost of doing business. The regulatory-happy Obama Administration has been imposing multiple burdens on commerce, starting with Obamacare. Add those to a higher minimum wage and it is hard to imagine that employment will not be affected.

The minimum wage is bad economics. It also is bad morals. The next time someone rises to support arbitrary government wage-setting, they should be asked what they are doing personally to help the economically disadvantaged. Raiding the wallets of others does not count as compassion.