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## Minimum Wage Hikes ‘Significantly Reduced Employment of Low-Skilled Workers’

By Daniel Mitchell

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It’s very frustrating to write about the minimum wage. How often can you make the elementary observation, after all, that you’ll get more unemployment if you try to make businesses pay some workers more than they’re worth?

But it’s my mission to promote economic liberty, so I’ve written on why [government-mandated wages can create unemployment](#) by [making it unprofitable to hire people with low work skills and/or poor work histories](#). And I’ve [attacked Republicans for going along with these job-killing policies](#), and also pointed out [the racist impact of such intervention](#).

Heck, just about everything sensible that needs to be said about the topic is contained in [this short video](#) narrated by Orphe Divoungny

But I guess I’m the [Sisyphus](#) of the free-market movement because, once again, I’m going to try to talk some sense into those who think emotion can trump real-world economics.

Let’s start by citing some new research.

States are allowed to increase minimum wages above the federal level. This creates interesting opportunities to measure what happens to employment when the national minimum wage is increased, since the change presumably doesn’t impact states that already are at or above that level.

Two economists from the University of California at San Diego took advantage of this natural experiment and [examined employment changes](#) in states that were “bound” and “unbound” by the law.

“...we find that minimum wage increases significantly reduced the employment of low-skilled workers. By the second year following the \$7.25 minimum’s implementation, we estimate that targeted workers’ employment rates had fallen by 6 percentage points (8%) more in ‘bound’ states than in ‘unbound’ states. ...Over the late 2000s the average effective minimum wage rate rose by nearly 30% across the United States. Our best estimate is that these minimum wage

increases reduced the employment of working-age adults by 0.7 percentage points. This accounts for 14% of the employment rate's total decline over this time period and amounts to 1.4 million workers. A disproportionate 45% of the affected workers were young adults (aged 15 to 24).”

Gee, what a surprise. Fewer jobs.

But the mandated hike in wages didn't just reduce employment.

There were also negative effects on income.

“We find that binding minimum wage increases reduced low-skilled individuals' average monthly incomes. Targeted workers' average incomes fell by an average of \$100 over the first year and by an additional \$50 over the following two years. ... We provide direct evidence that such losses translate into meaningful reductions in upward economic mobility. Two years following the minimum wage increases we study, low-skilled workers had become significantly less likely to transition into higher-wage employment in bound states than in unbound states.”

This evidence on income is particularly important because some statisticians make a rather utilitarian argument that it's okay for some people to lose jobs because others will benefit.

Jared Bernstein is Exhibit A, as you can see in this debate we had for CNBC.

But let's not just focus on numbers. There are painful human costs when low-skilled workers are priced out of the labor market.

Here are some excerpts from [a column](#) in the *Wall Street Journal* about a real-world example of people losing their jobs.

“It's well-established in the economic literature, if not in the minds of proponents of these laws, that the result will be job losses. Yet this empirical reality fails to capture the emotional reality of the employees who are let go, or of the business owners who had no choice but to let them go. ... Michigan's minimum wage rose in September to \$8.15 an hour from \$7.40 (the minimum wage for tipped employees rose 17%, to \$3.10 an hour). The wage will rise to \$9.25 by January 2018.”

Now let's look at the impact on a non-profit restaurant that helped disadvantaged people.

“The staff at Tastes of Life was made up of recovering addicts, recently incarcerated individuals and others who would have a hard time landing a job elsewhere. Mr. Mosley explained that on-the-job offenses for which an employee would have been “gone that day” in a traditional work setting were instead used as training opportunities at Tastes of Life. ... Mr. Mosley's financial goal was to break even and use any excess funds to subsidize Life Challenge participants. After more than two years of operation on Beck Road, 2½ miles from the center of town, Tastes of Life had a steady flow of loyal customers, but rising food costs presented a challenge. ... Mr. Mosley and Ms. Tucker had planned to print new menus with higher prices to cover the food

costs, but the September wage hike complicated those plans, in particular because the increase covered both tipped and non-tipped employees. ...“If we had a \$10 menu item, it would have to be \$14,” Mr. Mosley said. The restaurant’s customer base of seniors on a fixed income and Hillsdale locals made this option a nonstarter. The restaurant also had to find roughly 250 new customers a month, unrealistic in a small town of about 8,300.”

So the inevitable happened.

“The increased minimum wage, he told me, was ‘the straw that broke that camel’s back,’ forcing him to close his doors and lay off his 12-person staff. ...with the higher wage costs, the arrangement was no longer feasible, and Tastes of Life closed on Sept. 28. ...Four former employees have been able to leverage their restaurant experience to find new employment, but Mr. Mosley told me that eight are still out of work. ...the loss of Tastes of Life cuts deep, because the benefit for Life Challenge participants was both valuable and is not easily attained elsewhere. These unintended consequences of a minimum wage hike aren’t unique to small towns in south-central Michigan. Tragically, they repeat themselves in locales small and large each time legislators heed the populist call to ‘raise the wage.’”

Understanding “unintended consequences” is a key characteristic of a good economist.

Indeed, Bastiat’s wise words about the “seen” and “unseen” help to explain why [Krugman makes so many mistakes](#).

But that’s a topic for another column (actually, a [whole series of columns](#)).

Today, the goal is simply to understand that it is pointlessly destructive to make low-skilled labor less affordable.

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