

## Raising the Minimum Wage: A Tired, Bad Proposal

By: Veronique de Rugy - February 13, 2013

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We heard many bad and tired ideas during last night's State of the Union address, and one of them was the promise to raise the minimum wage, to \$9 dollar an hour. While on the surface it may seem like a way to increase the standard of living for lower-income Americans, in reality the policy is likely to backfire. For instance, research by economists David Neumark of the University of California, Irvine, William Wascher of the Federal Reserve Board, and Mark Schweitzer of the Cleveland Fed shows that that minimum wages increase poverty and hence poverty reduction certainly shouldn't be expected as a benefit of raising the minimum wage.

That's because, contrary to common belief, the relationship between low wages and poverty is extremely weak. In fact, as Neumark writes in a 2009 piece in the Wall Street Journal, "The principal sources of an individual's higher earnings are more schooling and the accumulation of experience and skills in the labor market," both of which are discouraged by increases in the minimum wage.

Neumark, who has done extensive research on the issue, summarizes his results the following way: "Based on 20 years of research, I doubt there is ever a good time to raise the minimum wage." And the negative consequences are worse when unemployment is high. He adds that, with a few exceptions, "The bulk of the evidence — from scores of studies, using data mainly from the U.S. but also from many other countries — clearly shows that minimum wages reduce employment of young, low-skilled people."

If you are interested, Neumark and Washer have a book worth reading on the minimum wage.

Mark Wilson has a Cato Institute study about the impact of minimum wage that is also a great read. The study lists other consequences of raising the minimum wage:

Increasing the likelihood and duration of unemployment for low-wage workers, particularly during economic downturns;

Encouraging employers to cut worker training;

Increasing job turnover;

Discouraging part-time work and reducing school attendance;

Driving workers into uncovered jobs, thus reducing wages in those sectors;

Encouraging employers to cut back on fringe benefits (that's the substitution of capital for labor)

Encouraging employers to install labor saving devices;

Increasing inflationary pressure;

Increasing teenage crime rates as a result of higher unemployment; and

Encouraging employers to hire illegal aliens.

While there is continuing debate about some of the effects of minimum-wage policies, the evidence seems to point to its long-term negative consequences. However, politicians, always on the lookout for policies that have visible positive effects on selected interest groups, often at the expense of less visible ones, tend to disregard this evidence. After all, when you raise the minimum wage, you can point to someone whose salary just got a boost, while it is very hard to see the negative effects the policy had on the worker who couldn't get a job because of the policy or the teen who dropped out of school to get a job attracted by higher wages rather than investing in his or her education, the true source of wage growth.

I will conclude with this quote by economist Russ Roberts. This morning he tweeted, "President worried about jobs. Wants to raise the minimum wage. Must be worried we have too many jobs. #tiredbadidea" Unfortunately, that's pretty much how I felt about most of his policy proposals last night.