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Cato Report: Federal Minimum Wage Hikes Linked to Wage Stagnation

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June 2, 2016

Federal minimum wage increases do little to help workers at the bottom of the economic ladder, according to a new Cato Institute report. Instead, they cause wage stagnation and even help to create more sub-minimum wage jobs.

In "Five Facts About the Minimum Wage," Cato senior fellow Alan Reynolds points out that "three of the four most recent increases in the federal minimum wage were quickly followed by prolonged stagnation in average wages."

"Every time the federal minimum wage has been increased the number earning less than that minimum always increased dramatically," he wrote.

"This was not just true of teenagers but also for those over 25," he added, pointing out that the average wages of production and non-supervisory employees failed to rise at the same rate as the minimum wage.

For example, from 2007 to 2009, as the federal minimum rose from $5.15 to $7.25/hour because of the Fair Minimum Wage Act of 2007, Reynolds found that the number of workers over 25 making less than the minimum wage almost doubled.

According to the Bureau of Labor Statistics (BLS), there were 1,691,000 hourly workers age 16 and older making less than the prevailing minimum wage in 2015, compared to 870,000 workers earning at the minimum.

Reynolds says that minimum wage hikes wind up increasing competition among unskilled workers for jobs that pay less than the minimum, including restaurant server positions and a multitude of off-the-book jobs. As a result, low wages just continue to get lower.

"People are being forced into jobs" that have no "upside potential," he said.

These "sub-minimum wage jobs compress the lower wages more than they should," Reynolds pointed out in an interview with CNSNews.com, using Wendy's as an example.

Earlier in May, Wendy's announced that many of its franchises will be installing automated kiosks due in part to the rising cost of labor. The kiosks will allow customers to place orders on their own and eliminate the need for employees at the cash register.

The fast food chain “isn’t hiring anybody to take your order” any more, Reynolds pointed out.

He also told CNSNews that “the worst minimum wage” is one imposed by the federal government, while the “second worst” is one imposed by an individual state because both tend to hit the economy at the wrong time and their effects are widespread.

Increasing the minimum wage at the local level causes much less damage, he said, because the ill effects are limited to a smaller area and because different localities have various ways of dealing with wage hikes.

Dr. Harry Holzer, a public policy professor at Georgetown University, offered another perspective on minimum wage increases. He sees the issue as nuanced, and said in an interview that it “depends on the level of minimum wage increases we are talking about.”

Holzer told CNSNews there could be “a big chunk of people that get helped” by a minimum wage increase. At the same time, he admits that if employers are unwilling to hire workers due to increased labor costs, “people who most likely lose jobs” would be the “young and unskilled.”

He supports smaller minimum wage increases, such as an Obama administration proposal to raise the federal minimum wage to $9/hour, then $10/hour the following year.

But Holzer worries that raising the minimum wage to $15/hour is too dramatic. In a 2015 column he wrote for *Fortune* referencing a February 2014 Congressional Budget Office Report, he expressed concern that such a sharp increase in the minimum wage would make it difficult for many workers to find jobs.

“In job markets where young or less-educated workers already have difficulty finding jobs and gaining important work experience, such mandates will likely make it much harder,” Holzer wrote.

Recent labor data from Seattle, which implemented gradual wage increases starting in April 2015 that will eventually raise the minimum wage to $15/hour, the highest in the nation, suggests that there is a correlation between job loss and mandated wage hikes.

A February 18 article by American Enterprise Institute scholar Mark Perry explains that according to BLS, Seattle lost 11,037 jobs between April and December 2015, going from 407,073 to 396,036 jobs – “the biggest decline over any 9 month period since between April and December 2009 period during the Great Recession.”

“Until the first minimum wage hike last April, all three of Seattle’s labor market indicators had been showing ongoing and strong signs of improvement for the previous five years,” Perry noted. “But then each of those key labor market variables for the city of Seattle reversed sharply starting last April” when the city’s minimum wage hike went into effect.

According to *USA Today*, California and Massachusetts currently have the highest state minimum wages, at $10/hour. In California, the minimum wage will rise to $15/hour by 2022.