

## Failure of minimum wage

By: John S. DelRosario Jr. – April 29, 2013

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Whenever the minimum wage issue is placed on the table, wage earners at this level salivate at the opportunity to see it implemented, given the deepening economic depression or subterranean sluggish economy. While the aspiration is justified, there's the greater need to realistically review its antecedent, especially the dire consequence that comes with it.

Just so we communicate with clarity on this issue, I am assuming that you have your own family business, working 18-hour work days to make some marginal profits. As industrious as you may be, there's still a major hurdle you face daily: Prohibitive cost of utilities! You sit alone most evening engaged in what Einstein calls insanity-juggling the same figures hoping for different results-one plus one is three. Never!

In the midst of persistent economic contraction, you still must pay for your employees' salaries, health insurance, higher fuel at the gas pump, housing and utilities, business supplies, and taxes. You review your financial statement at month's end only to come way short of funds to meet your expenses. Soon these expenses begin coming out from your savings or pension. It's time to close shop or sink deep in debt.

Then there's the federal imposition of higher federal minimum wage, another layer of hefty expense for any and all small businesses here. In a woefully unhealthy business climate can you really work the clock to find extras to cover this imposition? Our next pit stop would have to be the Marianas Trench, right? Either we find extras there or simply dump the entire business venture at the floor of the trench. Let the strange creatures downstairs devour it!

A study from CATO Institute says that while the aim is to help workers, “decades of economic research show that minimum wages usually end up harming workers and the broader economy. Minimum wages particularly stifle job opportunities for low-skill workers, youth, and minorities, which are the groups that policymakers are often trying to help with these policies.

“There is no 'free lunch' when the government mandates a minimum wage. If the government requires that certain workers be paid higher wages, then businesses make adjustments to pay for the added costs, such as reducing hiring, cutting employee work hours, reducing benefits, and charging higher prices. Some policymakers may believe that companies simply absorb the costs of minimum wage increases through reduced profits, but that's rarely the case. Instead, businesses rationally respond to such mandates by cutting employment and making other decisions to maintain their net earnings. These behavioral responses usually offset the positive labor market results that policymakers are hoping for.

“Some federal and state policymakers are currently considering increases in minimum wages, but such policy changes would be particularly damaging in today’s sluggish economy. Instead, federal and state governments should focus on policies that generate faster economic growth, which would generate rising wages and more opportunities for all workers.”

Who is paid the minimum wage?

“Supporters of minimum wages might believe that these laws mainly help to boost the incomes of full-time adult workers in low-income families, some of whom are supporting children. However, the data generally do not support that view. Most workers earning the minimum wage are young workers, part-time workers, or workers from non-poor families.

“According to the Bureau of Labor Statistics, 1.8 million paid-hourly employees were paid the federal minimum wage of \$7.25 in 2010.5. These 1.8 million employees can be broken down into two broad groups:

- Roughly half (49.0 percent) are teenagers or young adults aged 24 or under. A large majority (62.2 percent) of this group live in families with incomes two or more times the official poverty level. Looking just at the families of teenaged minimum wage workers, the average income is almost \$70,600, and only 16.8 percent are below the poverty line. Note that the federal minimum wage applies to workers of all ages.

- The other half (51.0 percent) are aged 25 and up. More of these workers live in poor families (29.2 percent) or near the poverty level (46.2 percent had family incomes less than 1.5 times the poverty level). However, even within this half of all minimum wage employees, 24.8 percent voluntarily work part-time, and just 34.3 percent are full-time full-year employees.

“Only 20.8 percent of all minimum wage workers are family heads or spouses working full time, 30.8 percent were children, and 32.2 percent are young Americans enrolled in school. The popular belief that minimum wage workers are poor adults (25 years old or older), working full time and trying to raise a family is largely untrue. Just 4.7 percent match that description. Indeed, many minimum wage workers live in families with incomes well above the poverty level.”

In the NMI, minimum wage workers are found mostly in private industries, the most productive sector struggling to survive the fatal effects of highly prohibitive utility costs. Piling additional imposition in statutory MW isn't going to help them survive in a woefully poor business climate. This and other taxes and ill-fated stifling regulations are regressive at best. The idea of encouraging reinvestment in hopes of raising more revenues would exact the complete opposite. It's something to seriously ponder.