



Hawaii's Minimum Wage Increase Will Increase Unemployment

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The state of Hawaii just voted to increase its [minimum wage](#) to \$10.10 and hour by 2018.

State Sen. Rosalyn Baker (D-South and West Maui) voted for the increase as it “will have a direct, positive impact on Hawaii’s families.”

Among others, these families will have more money in order to afford certain commodities like rice, which have doubled in price since 2007 – the year of the last minimum wage increase.

Notwithstanding the fact that prices in Hawaii are higher than the lower 48 because of the [Jones Act](#) (shipping between U.S. ports can only be done by U.S. ships staffed with U.S. personnel), her affirmation is half right. Increasing the minimum wage will have a direct impact on low-income families.

Demonstrators in support of fast food workers protest outside a McDonald’s as they demand higher wages and the right to form a union without retaliation Monday, July 29, 2013, in New York’s Union Square. Activists say hundreds of workers have walked off their jobs. They are demanding a minimum wage increase and calling for better benefits. (AP Photo/John Minchillo)

Unfortunately it will be a mostly negative one.

It’s Economics 101. Labor, like every other commodity, responds to the laws of supply and demand. If the government fixes the price of labor above what market forces would have considering consumers’ preferences, then employers’ demand for workers decreases and creates a surplus of unemployed individuals. In fact, the nonpartisan Congressional Budget Office released a [study](#) only two months ago concluding that hiking the minimum wage to \$10.10 per hour, as Hawaii just did, would cost up to 500,000 jobs nationwide.

Europe is already a prime example of the the negative effects of a high minimum wage.

As shown by Cato’s Steve Hanke, the 21 European countries with a minimum wage have an average 27.7 percent youth [unemployment](#), compared to an average 19.5 percent in those without one. That’s a difference of nearly 50 percent.

As a result, self-serve fast-food [kiosks](#) are sprouting up in many European countries with a high minimum wage as a way to cut down on labor costs. Outside of Europe, [Australia](#) is another prime example of what happens when industrialized countries raise their minimum wage too high, with youth unemployment over 17 percent.

Goods in Hawaii cost much higher than goods in the 48 continental states because of the Jones Act. Raising the minimum wage will just drive prices and unemployment even higher. Getty Images.

There's little question that the minimum already creates unemployment for low-skilled workers. Sadly, this effect was often intentional in its early history.

As economist Thomas Leonard explains, early progressive economists favored the minimum wage as a way to prevent citizens from competing with "[unfortunate parasites](#)" whose cheap labor would supposedly cause a race to the bottom in wages. Racist politicians jumped at this base concept to "weed out" undesirable workers — usually new immigrants or non-White racial minorities.

This is precisely why South Africa passed minimum wage laws in [1925](#), "to fix a minimum rate for an occupation or craft so high that no Native would be likely to be employed."

In the United States, the idea of setting a wage floor to barr low-skilled minorities workers from finding a job culminated on the federal level with the passage of the Davis-Bacon Act in [1931](#). Rep. Robert Bacon of New York didn't like the idea that cheap southern black labor was used to build a veterans hospital in his city. American Federation of Labor president William Green, on his side, claimed that "colored labor is being brought in to demoralize wage rates."

The act required federal contractors to pay their employees the "prevailing wage" of wherever their work was being conducted, effectively crowding out low-skilled African-Americans from working on the public projects.

Fortunately, some presidents realized the negative impacts of Davis-Bacon and suspended it in times of dire need. President [George H.W. Bush](#) did it to "provide as many employment opportunities as possible" in the recovery from hurricanes Andrew and Iniki in Florida in the early 1990s, and President George W. Bush did the same to help relieve New Orleans after Katrina.

Unfortunately, Hawaii's minimum wage will only continue the wage floor's racist history in effect. Although the state's politicians undoubtedly did not have the same racist intentions as their predecessors, the end result is the same.

By 2018, we "will see" that the most productive workers will earn a better salary, but we "won't see" lower-skilled workers earning nothing at all, to use late French economist [Frederic Bastiat's](#) wording.