Minimum Wage Hike May Prompt Thousands of Pink Slips

By: Patrice J. Lee
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Raising the minimum wage has boiled down to a debate between numbers and emotions. On one side is economic principle, modeling, and history, and on the other the stories of individuals struggling to make ends meet on the lowest wages.

As cities and states consider whether to raise their minimum wage, lawmakers face tough decisions.

San Francisco, which was the first U.S. city in our history to establish its own minimum wage, is considering another hike in response to labor union representatives, community advocates, and residents complaining about growing income inequality, rent hikes, and overall rises in prices. The city may raise its $10.74 minimum wage rate in increments to $15.00 per hour by July 2018. That could raise an average restaurant worker's salary by $125 per week and a retail worker's by $185. However, there are trade-offs.

To predict the economic fallout of such a move the city's Office of Economic Analysis ran the numbers and finds that it would cause the loss of 15,270 jobs (or 2 percent of private employment in the city) by 2019.

Specifically, the report focused on two primary effects of the minimum wage hike. On the positive side, they think it will raise the income of workers which should lead to spending and expand the city's economy. Conversely, it raises the cost of labor and creates a disincentive to hire employees leading to job losses noted above. Food services and retail trade would account for half of the total losses. Furthermore, if the economy takes a turn downhill, these effects will be magnified.

This is all predictive but some economists agree.

The *Daily Caller* reports:

> Diana Furchtgott-Roth, the director of Economics21 and senior fellow at the Manhattan Institute, told The Daily Caller News Foundation, “People who sustain the most damage will be low-skilled workers.”
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> “No one knows the precise number,” Furchtgott-Roth continues, adding that the wage increase “could cost more jobs.”
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> Michael Tanner, a senior fellow at the Cato Institute, agrees, telling TheDCNF that such a report couldn’t possibly be that exact in predicting jobs loss, but “it’s almost certain that” a minimum wage increase will “cost a certain amount of jobs.”
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> Tanner argues that such policies are based on emotional appeal more than sound economics, adding, “generally the problem with minimum wage increases is its popular.”

The President and pro-hike activists employ raising the minimum wage as a tool to whip up support for populist policies that may harm some in the short term but will hurt others in the long term.

The Congressional Budget Office assessed the impact of a national minimum wage hike and estimated that increasing it to $10.10 would reduce employment by roughly 500,000 workers in the second half of 2016. This is based on the rising costs of labor that will force employers to make tough choices of their own.

Unfortunately, politicians don’t often take a long term view on public policy. If an action is beneficial to some of their constituents and boosts their own electability in the short term, they are willing to run the risk of long-term harm.

Leadership requires making unpopular decisions sometimes. It would be far better in the long run to keep wages at the current level providing more job opportunities than raising the wage, which will trigger higher prices, job losses and less opportunities for low skilled workers. Isn’t it better for the city’s economy and burden on public resources to follow the latter course of action? But emotions run high.