



# The Minimum Wage Is a Jobs and Freedom Killer

*The best way to stimulate the economy is by expanding free markets*

By: James A. Dorn – May 10, 2013

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President Obama's proposal to increase the minimum wage to \$9 per hour and index it is misguided. It would reduce job opportunities for low-skilled workers (especially minorities), incentivize employers to switch to labor-saving methods of production, increase unemployment of low-productivity workers in low-income households and do nothing to address the underlying causes of poverty.

The legal minimum wage reduces both economic and individual freedom. It makes it illegal for workers to accept (or to keep) a job paying less than the minimum wage, and it prohibits employers from hiring anyone at less than the legal minimum – even if workers are willing to work.

If the prevailing market wage for low-skilled workers is \$7.25 per hour and Congress mandates a minimum of \$9 per hour, then workers who produce less than that will not be retained or hired. In the long run, as businesses shift to labor-saving methods of production, more low-skilled jobs will disappear than in the short run.

In anticipation of a \$9-per-hour minimum wage, small businesses are already making plans to shift to automated equipment, self-service tablets and new software to save on higher-priced low-skilled workers. More jobs will be created for skilled workers but at the expense of destroying jobs for low-skilled workers.

Politicians promise workers \$9 per hour, but that promise cannot be kept if employers fire (or don't hire) workers who produce less than \$9. Most important, if low-skilled workers lose their jobs or can't find jobs at the legal minimum, their actual earnings will be zero.

Evidence shows that when the real (inflation-adjusted) minimum wage exceeds the prevailing market wage for unskilled workers, there will be fewer jobs and a higher unemployment rate – especially in the longer run. If a person with low productivity is prevented from getting a job by the minimum wage, she may go on welfare. Without a job, she will be handicapped and become dependent on government. Rather than develop good work habits and improve her opportunities to move up the income ladder, she will be at a dead end.

High unemployment rates for teenage workers, especially blacks, are a direct consequence of the legally mandated minimum wage. The minimum wage also leads to lower participation rates for low-skilled workers as they become discouraged and drop out of the workforce.

Proponents of the minimum wage focus on workers who retain their jobs but ignore those who lose their jobs or can't find jobs. They also assume that employers can cover

the higher minimum by raising prices or paying out of “excess profits.” But most small businesses cannot increase prices and are making only a normal return on their invested capital. Large franchise restaurants, retailers and manufacturers have more leeway. Most are already paying more than the minimum wage. They may favor an increase in the minimum wage in order to reduce competition from small businesses, just as unions favor a higher minimum wage to protect their jobs.

If employers do raise prices, consumers will have less money to spend on other goods and services, so there will be fewer jobs elsewhere. Likewise, if the minimum wage cuts into profits, there will be less investment, and job growth will slow. The best way to stimulate the economy and create jobs is to increase economic growth by expanding free markets, not by increasing government power through a higher minimum wage.