



William Poole: A minimum wage on the rise?

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President Barack Obama predictably repeated his call for an increase in the minimum wage in his State of the Union. The president's story of how the owner of Punch Pizza in Minneapolis raised wages for employees like Nick Chute which "eased their financial stress and boosted their morale," sounded good. That's because the idea of people pocketing more dough is something the American people can get behind. The problem is that a mandated minimum wage actually hurts more people like Nick than it helps.

That's right, despite the claim from the president and even some economists that "increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers," the evidence tells a different story.

Here is one telling example: Minimum wage increases in American Samoa between 2007 and 2009 had such crushing economic effects that President Obama himself signed a bill postponing increases scheduled for 2010 and 2011.

In fact, there is a massive body of research over more than 70 years that convincingly shows that the minimum wage is bad for the broader economy, results in job loss, and has little to no effect on reducing poverty. Worse, the minimum wage has proven to disproportionately hurt the people it was ostensibly put in place to help: the poor, the low-skilled and the uneducated. Any skeptics can find easily two recent comprehensive surveys of the literature. One is a 2012 survey by Mark Wilson available on the Cato Institute website. Another is a 2006 survey by David Neumark and William Wascherth available on the National Bureau of Economic Research website.

Advocates of an increase in the minimum wage often focus on employees of fast-food restaurants, hotel housekeeping staff and the like. The president and others seem unaware of the fact that nonprofit organizations hire many minimum wage workers. Think nursing homes and inner-city day-care centers. Think group homes for developmentally challenged children and recovering substance abusers. Think Goodwill Industries and Salvation Army.

How are these and many other nonprofits serving low-income families going to find the revenue to meet a higher minimum wage?

It is not hard to explain to the noneconomist why some studies suggest no effect of the minimum wage on employment. In the past, most changes in the minimum wage have been relatively small. Trying to sort out the effects of the increase from everything else going on requires high-powered statistics, and even then the effects can be buried by a host of other simultaneous disturbances and influences. If you accept as a fact that a minimum wage of, say, \$50.00 per hour would reduce employment, and you accept as a fact that some workers are currently paid \$7.25 per hour, then logic compels you to believe that a small increase in the minimum wage above \$7.25 will have at least a small negative effect on employment.

Besides reducing employment, an inevitable impact of a higher minimum wage is increased prices for consumers – a class of people that includes those minimum wage workers with their new, higher paycheck. A higher wage has to come from somewhere – the tooth fairy won't provide it. A day-care center, for example, will have to raise its fees. A 2004 review of more than 20 minimum wage studies found that a 10 percent increase in the U.S. minimum wage raises food prices by up to 4 percent. However, the president isn't calling for a 10 percent increase, he wants a 39 percent increase. That'll take a bite out of the higher paychecks of minimum-wage workers, and everyone else.

Raising the minimum wage to \$10.10 is good politics, but only if citizens fail to understand its negative effects. Focusing on the minimum wage ignores the policies that really would help the working poor, such as an expansion of the earned income tax credit. The EITC directs assistance to low-income wage earners, whereas some minimum wage earners are, for example, teenagers from wealthy families.

Another possible measure would be to provide federal assistance to help workers move to labor-short states. A wage above \$7.25 is readily available to anyone willing to move to a low-unemployment area such as North Dakota.

Why didn't Obama use his State of the Union address to propose policies that really would help low-income families? As a statesman instead of a politician, he could have provided real leadership on this issue instead of the warmed-over, ineffective, damaging minimum wage proposal.