



No, we shouldn't raise the minimum wage

By: Jason Pye – December 9, 2013

There has been a big push recently by President Barack Obama to raise the federal minimum wage to \$10.10 per hour from the current \$7.25 rate*, bending to cries from some of the most-leftist congressional Democrats for a higher wage than his original \$9 proposal.

President Obama's proposal is bad enough, but fast-food workers, however, want \$15 an hour, and many employees went on a one-day strike last week to voice their demands. This isn't the first time this year fast-food workers have gone on strike over the minimum wage. It happened in various parts of the country in April, July, and August.

These workers complain that they can't live on the \$7.25 federal minimum wage, which comes out to \$15,080 annually for a full-time workers (76% more than the \$11,490 federal poverty level for a one-person household). Raising the minimum wage to \$15 would come out to \$31,200 a year for a full-time employee.

Though people tend to get caught up in the warm and fuzzy feelings of minimum wage politics, the debate is so much more than that. Looking at the characteristics of these workers tells us a lot.

Small Number of Total Workers: According to the most recent numbers from the Bureau of Labor Statistics (BLS), 3.55 million (or 4.7%) of all hourly workers made at or below the federal minimum wage. When compared to all employed Americans, including salaried workers, the percentage of workers making minimum wage falls to 2.8%.

Mostly Young, Entry-Level Workers: Of those workers earning minimum wage, 50.6% are between the ages of 16 and 24. Breaking that down even further, nearly 25% of workers making the minimum wage are between the ages of 16 and 19. Roughly 27% are between the ages of 20 and 24.

In other words, the majority of workers making the minimum wage are entry-level employees — kids in high school and college aged adults.

Education is a Big Factor: Nearly 28% of minimum wage workers either haven't completed high school or dropped out, according to BLS figures, and almost 30% have only a high school diploma. Around 35% went to college, but didn't earn a degree.

Just 6% have an associates degree, either occupational or academic, and 8% have a bachelor's degree or higher.

If you have high school diploma, generally, you're considered to be a low-skilled worker. Obviously, there are exceptions to the rule. Some find ways to better themselves and excel.

Now, there is a demand for low-skilled workers, but the job market matters, which is why nearly 44% of minimum wage earners work in the fast-food or food service industries and about 16% work in the retail industry, according to BLS data.

They're not going to be paid as much as, say, an average office worker or a hair stylist, jobs that typically require a measure of skill outside of basic education.

Minimum Wage Laws and the Impact on the Economy: According to a study by three economists — David Neumark, William Wascher, and Mark Schweitzer — the minimum wage actually has the adverse effect of increasing poverty.

“Although minimum wages do increase the incomes of some poor families, the evidence indicates that their net effect is, if anything, to increase the proportions of families with incomes below or near the poverty line,” wrote the trio in a paper published by the Federal Reserve Bank of Cleveland. “Thus, it would appear that reductions in the proportions of families that are poor or near-poor should not be counted among the potential benefits of minimum wages.”

In a policy analysis published last year by the Cato Institute, Mark Wilson explained that the impact of the minimum wage on employment has been documented by economists for decades. The evidence all says the same thing.

“The main finding of economic theory and empirical research over the past 70 years is that minimum wage increases tend to reduce employment,” noted Wilson. “The higher the minimum wage relative to competitive-market wage levels, the greater the employment loss that occurs.”

Wilson made several other specific points about the impact of the policy on workers and employment, explaining that increases in the minimum wage increases the duration of unemployment for low-wage workers, cuts to employee training, hurting the availability of part-time jobs, and increasing teen crime rates due to the lack of available jobs.

Paul Krugman has even noted the adverse effects of raising the minimum wage. “[Raising the minimum wage] would increase employers’ incentives to evade the law, expanding the underground economy,” he wrote in 1987. “More important, it would increase unemployment: Raise the legal minimum price of labor above the productivity of the least skilled workers and fewer will be hired.”

He wrote on the subject again in 1998, completely dismantling a study by a pair of fellow leftists economists.

“Clearly these advocates very much want to believe that the price of labor—unlike that of gasoline, or Manhattan apartments—can be set based on considerations of justice, not supply and demand, without unpleasant side effects,” wrote Krugman, adding later that “idea that employment ‘of the affected

workers' will not suffer because the affected wages are only a small part of costs is a non sequitur at best."

Fast-Food Chains Innovate and Automate: This may be a harsh way of putting it, but, unfortunately, warm and fuzzy feelings and the fairy dust and unicorns tossed around the minimum wage debate can't help business owners make their payrolls. There really is no way to get around that.

Yes, striking workers, you can be replaced; after all, we're living in an age of driverless cars and drones that can deliver packages to your doorstep.

In Europe, for example, McDonald's has replaced human cashiers with touchscreen terminals. A San Francisco-based company has created an automatic burger machine. And some enterprising businesses have turned to automats to satisfy hungry consumers.

A significant hike in the federal minimum wage could speed up the use of this technology in the United States. Sure, not all employees would be replaced through automation, perhaps not even most, but recent study found that 47% of jobs in the United States are at risk of being replaced by automation, including those in the fast-food and service industries.

Businesses will find ways to reduce their overhead, even if it means bringing in robots to perform tasks once done by a human. That means fewer available jobs for Americans because of a market-distorting mandate. And, likely, higher prices for consumers.

It's All About Labor Unions: The dirty little secret behind this is that many collective bargaining agreements — specifically those in the food service and retail industries — are indexed to the minimum wage. The Center for Union Facts noted this in a research brief released earlier this year, though, this has previously been documented elsewhere.

"Some union contracts set starting union wages as much as fifteen percent higher than the federal minimum wage," said Richard Berman, executive director of the Center for Union Facts. The research brief points out that one "SEIU Local's agreement orders that "[t]he minimum hourly wage rates shall exceed any statutory applicable minimum wage rate by fifty cents."

Guess which organization is behind the push for the \$15 minimum wage?

The SEIU.

What Should Be Done: There's no question that the many Americans are dealing with a tough economy more than five years after the recession. For some, the recession is still ongoing. But pushing a policy that will have an adverse effect on these folks — as the study published by the Federal Reserve Bank of Cleveland explained — is simply not the answer.

Instead, the focus should be on implementing economic policies that encourage economic growth and create opportunities for these Americans. That means undoing or mitigating regulations — ranging from

environmental to financial industry rules to Obamacare — that are hurting job growth by imposing more compliance costs to businesses. Basically, reversing course from the last several years.

A smaller regulatory burden could indeed mean more capital for businesses to expand and invest as well as provide pay increases and opportunities for employees.

There should also be a greater focus on education. This doesn't mean that Congress should spend more money, because, after all, increased funding hasn't translated into better test scores. Not everyone is cut out for college, but a focus on school choice and trade skills provided through charter schools would be a step in the right direction.

**Note: The federal minimum wage applies to 30 states. Some states have laws that exceed the federal minimum wage; though, marginally, in some cases. Seven states have a minimum wage of \$8 or more. Washington has the highest in the country, at \$9.19, though, some will exceed this next year.*