

## Swiss City Geneva Votes for World-Record \$25 Hourly Minimum Wage

**The Swiss city of Geneva recently voted to implement a minimum wage that translates to \$25 an hour; \$4,100 a month**

Brad Polumbo

October 6, 2020

Debate over the minimum wage has been at the forefront of American politics in recent years. Progressives argue that we need to mandate a “living wage” of \$15 an hour under federal law, and this is now the official position of Democratic presidential nominee Joe Biden. Meanwhile, most Republicans argue against increasing the minimum wage. Conservative critics point to studies and real-world examples showing how wage floors backfire and hurt workers.

Yet the American debate over a \$15 minimum wage looks rather quaint compared to the extreme minimum wage policies being implemented across the Atlantic. In the latest example of Europe’s embrace of progressive economic policy, the Swiss city of Geneva just voted to implement a minimum wage that translates to \$25 an hour, or \$4,100 a month.

“The introduction of a minimum wage is a fundamental requirement of justice, and an essential measure against precariousness,” said Alexander Eniline of the left-wing Swiss Labor Party, the *Guardian* reports.

The measure is intended to combat poverty in light of the COVID-19 pandemic and ensuing economic crisis. But economics teaches us that such a massive minimum wage hike will only reduce employment and hurt many workers it’s meant to help.

### Why Minimum Wage Laws Can’t Work

People tend to think of labor differently from other goods, but the labor market essentially works the same as any other market. Labor is the “good” being provided by workers, and the wages are the “price” being paid by employers.

“Minimum wage laws make it illegal to pay less than the government specified price for labor,” famed free-market economist Thomas Sowell explained in his book *Basic Economics*. “By the simplest and most basic economics, a price artificially raised tends to cause more to be supplied and less to be demanded than when prices are left to be determined by supply and demand in a free market. The result is a surplus, whether the price that is set artificially high is that of farm produce or labor.”

Think about it like this. Imagine that you went to the convenience store to buy a can of Red Bull, and it was worth up to \$5 to you. But upon arriving, you saw that the price tag was set at \$20 due to a government mandate. What would you do? You’d almost certainly just put the can back

down and walk away without purchasing it, not shell out \$20. Or, maybe you'd buy a Coca-Cola instead.

Labor really is no different. If you mandate that employers pay more for labor than it is worth to them, they will buy less of it.

“Making it illegal to pay less than a given amount does not make a worker’s productivity worth that amount— and, if it is not, that worker is unlikely to be employed,” Sowell writes.

“Unfortunately, the real minimum wage is always zero, regardless of the laws, and that is the wage that many workers receive in the wake of the creation or escalation of a government-mandated minimum wage, because they either lose their jobs or fail to find jobs when they enter the labor force.”

### **Evidence and Experts Agree: Minimum Wage Hikes Don’t Work**

A 2017 study of Seattle’s \$13 minimum wage hike found that it reduced hours worked by 9 percent, leading total income for impacted workers to actually decrease on net.

So, it’s no surprise that the nonpartisan Congressional Budget Office (CBO) found that enacting a \$15 minimum wage nationwide would destroy up to 3.7 million jobs and decrease total income for Americans below the poverty line by roughly \$16 billion. The *Washington Examiner*’s Tiana Lowe wrote that the research “disproves the idea that a \$15 federal minimum wage creates any net benefit” and shows how the policy “simply reshuffles the problems plaguing our economy, on the whole creating more new problems than it solves.”

“The main finding of economic theory and empirical research over the past 70 years is that minimum wage increases tend to reduce employment,” the Cato Institute concluded in a research review. “While minimum wages ostensibly aim to improve the economic well-being of the working poor, the disemployment effects of minimum wages have been found to fall disproportionately on the least skilled and on the most disadvantaged individuals, including the disabled, youth, lower-skilled workers, immigrants, and ethnic minorities.”

This brings to mind the words of the late Nobel-prize-winning economist Milton Friedman: “The real tragedy of minimum wage laws is that they are supported by well-meaning groups who want to reduce poverty. But the people who are hurt most by higher minimums are the most poverty stricken.”

Decades later, most economists still agree with Friedman. A 2019 survey by the Employment Policies Institute found that 75 percent of professional economists oppose increasing the minimum wage to \$15 an hour. This wasn’t political: In an interesting twist, almost all the responding economists identified as Democrats or Independents, with just 12 percent identifying as registered Republicans.

### **There’s No Limiting Principle to Minimum Wage Advocates’ Logic**

Some might look at the Swiss example and say, okay, sure, we can’t have a crazy \$25 minimum wage... but why not something more modest like Biden’s \$15? Surely that wouldn’t be as bad, right?

It's true that the economic harm of minimum wage laws increases the higher the cap. But the logic for why a \$25 minimum wage doesn't work applies to a \$15 minimum wage or any other, really.

Minimum wage proponents have no good answer to a simple question: Why just \$25 an hour? If creating wealth and defeating poverty is as simple as passing a government wage mandate, why not make it \$100 an hour and have us all swimming in prosperity?

The reality is that artificially mandating higher wages cannot force employers to pay more than workers are worth to them, particularly when employers have alternatives like cutting hours or embracing automation. This is just as true for Biden's \$15 minimum wage as it is for Geneva's record-setting \$25 hourly mandate. It applies to any minimum wage above the market rate.

This is a rare issue where there remains clear consensus among economists and experts regardless of partisan or political affiliation. So why do politicians keep pushing minimum wage hikes?

It's simple: Broad swaths of the public still naively support hiking the minimum wage. (Although, support drops when they are educated about the policy's costs). In fact, the \$25 minimum wage in Geneva was voted in by the city's residents in a landslide ballot referendum, after voters had more wisely rejected it in the past.

So, until the public wises up to the counterproductive realities of minimum wage hikes, the flawed policies will continue to advance in our politics—despite the mountains of economic evidence screaming out for the opposite approach.