IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

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MINIMUM WAGE = MINIMUM EMPLOYMENT

On November 7, voters in Arizona, Missouri, Montana, Nevada, and Wyoming will be asked to approve increases in their state minimum wages and to index them to inflation in the future. Some proponents of the minimum wage mean well, but do not recognize the damage it causes. Others know full well what such wage floors do, and manipulate voters' heartstrings to further their own ends.

According to the Labor Department, as of 2004, less than 3 percent of hourly wage workers were paid at or below the federal minimum wage of $5.15 an hour; about half of them are under age 25, and about a quarter are teenagers. Less than 2 percent of workers 25 or older get the minimum or less. About 60% of these low-wage workers were in the leisure and hospitality industry, primarily food services and drinking places, where wages are supplemented by tips. Part-time workers were seven times more likely to be at or below the federal minimum wage than full-time workers. Most move up rapidly.

In many areas, low-end market wages are well above the federal minimum, and the federal floor has little or no impact. However, many states set higher floors. Wherever a minimum wage is binding, it prices the lowest-skilled, least-educated job seekers out of the market. Job seekers who cannot add value at least equal to the minimum wage are not hired. Current workers whose output barely exceeds the current federal or state minimum face lay-offs whenever the minimum wage is raised. Linking the wage to inflation would lock in the damage.

Most job seekers made unemployable by the minimum wage are teenagers from prosperous families just trying to earn a little pocket money, or are older, secondary workers living in households with other breadwinners that are well above the poverty level. They can bear the government-mandated disappointment (although they should not have to).

Nonetheless, some minimum wage recipients are people who need work to help support themselves and their families, perhaps with help from food stamps or Medicaid. They are often victims of ineffective school systems, and are desperate for on-the-job training to make up for their lack of skills. Even low paid jobs offer work experience that allows workers either to advance on site or to compete more successfully for jobs elsewhere. The minimum wage closes that road to advancement by making it uneconomical for businesses to hire and train them.

Yes, it is awful that some people drop out of school, or graduate without the skills needed to earn more. And yes, we need to improve education in public schools, and to let parents switch their children from failing schools to ones that perform better. Meanwhile, there is no excuse for prohibiting people from trading some of their time at a lower wage for the on-the-job training that could make up for their lack of education.

Those who favor the minimum wage should consider in whose footsteps they follow.

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Professor Walter Williams notes that the 1931 Davis Bacon Act (requiring "prevailing" wages on federally assisted construction projects) was supported by Congressional testimony that it would keep contractors from using "cheap colored labor" to underbid contractors using white labor (Representative Clayton Allgood, Congressional Record, 1931, p. 6513).

Professor Williams also notes that the old apartheid government of South Africa enacted a minimum wage at the behest of white unions to price low-skilled black workers out of selected trades (as an alternative to an explicitly racist prohibition on hiring blacks). Gert Beetge, Secretary of the South African Building Workers' Union, said, "There's no job reservation left in the building industry, and in the circumstances, I support the rate for the job [minimum wages] as the second best way of protecting our white artisans."

In the United States, the inflation of World War II slashed the real value of the pre-war minimum wage to less than prevailing market wage rates. In the 1950s, New England textile manufacturers supported Senator John F. Kennedy's efforts to increase the federal minimum wage to prevent competing mills from starting up in the low-wage South.

In 1948, the black teenage unemployment rate (9.4%) was below that of white teenagers (10.2%). The latter had less need to help support their families and demanded higher pay. When the minimum wage was raised in the 1950s, many black teenagers were priced out of the market, and their unemployment rates rose to more than twice those of white teenagers, and, in bad times, ranged from 45% to 51% between 1975 and 1982.

Today, the biggest backers of minimum wage hikes are unions. They are not out to raise the incomes of the poor. Rather, they seek to block low-wage workers from competing with higher-skilled, but also higher-priced, union members.

There is no moral justification for the government to deny someone an honest job he is willing to undertake, and which someone is willing to offer, at a price they both agree on. When people are denied the freedom to take legal work, and have no family to assist them, they must either starve, go on welfare, work "off the books" in the underground economy (forgoing legal protections, losing social security benefits, and evading taxes), or engage in outright criminal activity. These are the unintended consequences of the minimum wage.

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Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.