

 **MINIMUM WAGE LAWS**
- DO THEY HELP?
- OR ARE THEY A
BUNDLE OF
UNINTENDED
CONSEQUENCES?



Stephen L. Bakke  March 8, 2013

I think we all understand the goals of minimum wage legislation – raise the economic well being of the poorest working Americans. This is indeed a noble goal. However, are there any unintended consequences that are being generally ignored? This is a topic I haven't looked into until recently.

The subject of minimum wage was emphasized by the President in his SOTU Address and then recently debated in Congress. Obama called for an increase from \$7.25 to \$9 an hour, while many Democrats in Congress want to go to \$10. Typically, most Republicans are skeptical of the true benefits and resist large changes in the minimum.

Based on my inquiries into this issue, I must conclude that many studies over the years have reached very different conclusions. And going to panels of acknowledged experts would now produce a very mixed bag of opinions on whether raising the minimum wage actually makes it harder for the poor to find work. If work is then harder to find, these experts would not agree on whether the benefits to those still working and receiving the increase actually outweigh the hardships experienced by the group who then find fewer available jobs.

No one who works full time should have to live in poverty. – President Barack Obama, 2013 State of the Union Address

Here are some facts and observations on minimum wage legislation (for further information on sources of information, go to the end of this report):

- Contrary to popular opinion, **VERY few working citizens are at, or near, the minimum wage level.** Over 97% of all American workers work for more than the minimum wage.
- **Over half** of the minimum wage earners in this country are **between the ages of 16 and 24 and tend to work part time.**
- Minimum wage increases tend to **affect teenagers and NOT the working poor.**
- Heritage labor expert, James Sherk, states that: *Contrary to what many assume, low wages are not their primary problem, because most poor Americans do not work for the minimum wage. The problem is that most poor Americans do not work at all.*
- It has been demonstrated that raising the minimum wage **does measurably reduce the number of minimum wages jobs available.**
- If the number of jobs decreases from an increase in the minimum wage, **the unemployed poor are pushed further away from likely employment,** thereby not benefiting at all.
- Many believe that minimum wage earners come from poor families. Surprisingly, **the average family income is more than \$53,000 a year.** These earners tend NOT to be the primary wage earner in the family.

- Heritage has found that minimum wage earners don't stay at those jobs or status forever. **Two thirds earn a raise within a year! After that, they are demonstrably upwardly mobile!**
- Contrary to a common opinion, **very few single parents are working for minimum wage.**
- The minimum wage earners are **typically suburban teens.**
- According to an interpretation of census information by Heritage, families are poor not because they earn low wages, but **because they do not have full-time jobs.** Minimum wage adjustments seem to work contrary to this purpose.
- Statistical evaluation of poverty rates seems to prove that **higher wages don't reduce poverty.**
- Very often, if the minimum wage earner is truly living in poverty, **most of their increase in wages can often be given back because the benefits they are receiving are "means tested"** – e.g. food stamps, housing vouchers, Medicaid, and the Earned Income Tax Credit. Higher pay means less benefits!!

Heritage labor expert James Sherk opined that: *A higher minimum wage would help some workers, but few of them are poor. The larger effect is hurting the ability of potential workers living in poverty to get their foot in the door of employment. A minimum wage hike might help politicians win plaudits from the press, but it wouldn't reduce poverty rates The structure of the welfare state makes it virtually impossible to fight poverty with a higher minimum wage.*



For every complex problem there is an answer that is clear, simple, and wrong. – H.L. Mencken

The minimum wage not only discriminates against low-skilled workers but also is one of the most effective tools of racists everywhere Whether support for minimum wages is motivated by good or by evil, its effect is to cut off the bottom rungs of the economic ladder for the most disadvantaged worker and lower the cost of discrimination. – Economist, professor and author – Walter E. Williams

And finally, from one of my favorite “go to” commentators:

I like things that make sense, have a clear and defined purpose, and have a means for measuring results and evaluating success. These characteristics I don't find when studying the history of minimum wage increases. If measurements finally are made, the original intent is generally not achieved. I have no problem with periodic changes in the wage minimum, but let's not fool

ourselves about the true impact of our policies, and we should choose realistic goals. The proven fact is that any time you set the minimum wage ABOVE the entry level wage rate for unskilled workers, the result is a loss of jobs – sometimes only marginal but sometimes major – and this result shouldn't surprise us. At this point I believe the supporters of increasing the minimum wage are doing it mostly to “feel good” at a time in which they otherwise are experiencing only frustration. – Stefano Bachovich, obscure but very wise political pundit, and a willing purveyor of opinions on just about everything.

There have been numerous studies over the years with varied and sometimes conflicting results. Many of the points in this report have their roots in various Heritage Foundation projects. I found that several Heritage research projects provide a good basis for understanding some subtle aspects of this issue. In addition I used information from The CATO Institute; Mercatus Center at George Mason University; The Initiative on Global Markets at the University of Chicago's Booth School of Business; and observations by economist, professor and author, Dr. Walter E. Williams.