

If you don't regularly receive my reports, request a free subscription at steve_bakke@comcast.net !
Follow me on Twitter at <http://twitter.com/BakkeSteve> and receive links to my posts and more!
Visit my website at <http://www.myslantonthings.com> !

\$15 MINIMUM WAGE: GOOD POLITICS, BUT IS IT GOOD POLICY?

By Steve Bakke  September 8, 2019



Minimum wage debates come and go, and we're at it again. This time, however, it's a bit different. The Democrat controlled House has "gone big" by passing a \$15 minimum wage bill. Their expressed goal is to create "an economy that works for everyone." Now it's up to the Senate to debate the legislation.

Contrary to recent decades, during the last two years percentage wage increases have outpaced a good share of increases for highly paid employees. Economic expansion is high and unemployment is low. Those characteristics aren't typically present during a major push for minimum wage increases – and this increase is large enough to be considered transformational. That fact may not bode well for the legislation when it reaches the Senate.

Every time we debate the pros and cons of increasing the minimum wage, most hearts are in the right place, no matter the political affiliation. Raising the living standard of the poorest among us is a worthy objective, but we must take time to understand some inevitable negative consequences of this legislation.

A look at some demographics produces a convincing argument that most benefits of minimum wage increases don't end up with the intended beneficiaries. Over 60% of minimum wage workers are second or third earners in families earning at or above the poverty level. As a result, minimum wage increases tend to affect teenagers and secondary wage earners, not families comprising the working poor.

The CBO projects other significant adverse impacts resulting from a \$15 increase:

- The CBO estimates 1.3 million people will be lifted out of poverty. That's great, but at the same time the midrange estimate of job losses is 1.3 million, with a worst-case scenario of 3.7 million jobs lost. The highest job loss estimate I've come across is 7 million, from the Heritage Foundation.
- Job losses would be concentrated on those least experienced and poorly educated, and women would be more adversely impacted than men.
- While 17 million workers would receive wage increases, CBO estimates that total real family income would decrease by 9 billion.
- The cost of a \$15 minimum doesn't stop there. The total impact becomes almost \$19 per hour if you consider all costs of full-time employees.

- Unfortunately, the same minimum would apply for the entire country. This would produce very different impacts, state by state. For example, imagine trying to make sense out of a comparison of the impact on New York or California, with the impact on Mississippi or Alabama.
- A large increase like this would be inflationary. It's likely that most of the costs would eventually be passed on to consumers. Price increases would eventually wipe out much of the purchasing power gains intended for low income workers.
- There would be an added incentive to automate. The automated cashier machines being added at many McDonald's are examples of this.
- Several cities in the U.S. have jumped the gun on a \$15 minimum. According to The Heritage Foundation, following are the reductions in overall employment after these cities implemented a \$15 minimum wage: Los Angeles - 3% lower employment; Seattle - 2% lower; San Francisco - 1% lower.

The goal of the \$15 minimum wage increase is noble, but adverse consequences can be material. As mentioned earlier, my most significant concerns are: most benefits would end up with people who don't need it, i.e. benefits miss the intended target; and, while acknowledging that some will benefit significantly from that increase, there are a myriad of offsetting economic affects that would land on other categories of individuals. The combination of negatives leaves this proposed wage policy with a high risk of failure.

Those negatives are the reason most conservatives prefer other alternatives for helping the working poor. Consider the impact of the recent tax cuts on wages and total employment. The resulting economic growth produced record low unemployment along with significant wage gains for low-income workers. Or, why not look closer at what I've always concluded as a good solution, the earned income tax credit. This tax provision provides an incentive for the poor to seek employment, and ensures that benefits go to the lowest income workers - those whose need is the greatest.

Unfortunately, these other suggestions, and conservative pro-growth policies in general, lack the political pizzazz of transformative proposals to raise the minimum wage. Hopefully the United States Senate won't succumb to pressure to pass this legislation.