



The Misery of the Minimum Wage

by *Richard W. Rahn*

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What do you think the minimum wage per hour should be? How did you come up with that number?

The federal minimum wage is \$7.25 per hour, and the Obama administration proposed raising it to \$10.10 per hour last Thursday. Last week, the voters in New Jersey passed a \$8.25 per hour minimum wage, and the voters in the town of SeaTac, Wash., passed a \$15 per hour minimum wage. Australia raised its minimum wage back in July to \$16 per hour, the highest in the world, yet many rich nations do not even have a legislated minimum wage, including Germany, Singapore, Sweden and Switzerland. Many poor countries have minimum-wage requirements, including the socialist workers paradise of Cuba, with a five-cent per hour minimum wage.

Some who demand higher minimum wages claim that everyone should have a "living wage." Employers in low-margin businesses who hire many minimum-wage workers claim that they will be forced to lay off workers if they are required to pay more. Most often, higher labor costs result in higher prices, causing fewer sales, and thus fewer workers are needed.

Think about those tasks you can either do for yourself or hire someone else to do — cleaning the home, caring for children,

assisting an elderly parent, mowing the lawn or painting the home. For each of these tasks, there will be a price at which you say to yourself, "That's too much. I'll do it myself or not do it all." Many women have a choice between staying at home and taking care of the children or going to work away from home. Often, that decision is based upon the after-tax income differential of what one has to pay for child care (including payroll taxes) versus what one would receive for working outside the home. In conditions of less than full employment — like now — each additional stay-at-home mom (or dad) will result in a reduction of the labor force, and fewer child care providers being employed.

A noted labor economist, Walter Williams, has written: "Among academic economists, there is little or no debate over the unemployment effects of minimum wages. Our only debate is the magnitude of unemployment." Mr. Williams authored a classic paper showing that one of the major reasons for the original federal minimum wage back in 1938 was the desire of racist, white-only unions to keep skilled black tradesmen from getting jobs owing to their willingness to work for less than the union rate.

Faced with a minimum-wage increase, studies show, as logic would dictate, employers substitute more productive employees for less productive workers. Thus, the least educated and least skilled tend to lose their jobs. Teenagers, particularly black teenagers, are the hardest hit, with a current unemployment rate of almost 40 percent, roughly double that for white teenagers. All teenagers have an unemployment rate more than triple for that of adults.

Most minimum-wage workers are members of families with an average income of \$42,500, well above the poverty line for a family of four. Only 4 percent of the full-time, minimum-wage workers are single parents, who normally also receive benefits such as the earned income tax credit and food stamps.

It should be no surprise that those who argue most strongly for higher minimum wages are unions, seeking protection from those who need the work and would be

willing to work for less, and members of the political class who spout lofty slogans about how they are out to protect the working poor. They ignore the fact that higher minimum wages are nothing more than a prohibitive tax on those who are the least productive owing to a lack of experience, education, skill or other handicaps — meaning no one will hire them. Those who manage to hold on to their minimum-wage jobs when the rate is increased will be slightly better off, but those who lose their jobs are devastated because they often have few other options.

As noted, Australia has a lower unemployment rate and higher minimum wage than the United States. Australia also has a lower level of taxation, regulation and government spending than the U.S. Its government debt as a percentage of gross domestic product is one third that of the United States, and it has a privatized Social Security system, among other things. All of the above contribute to higher economic growth, which increases the demand for labor. Australia also has lower minimum-wage rates for young people than for experienced adults, who tend to be more productive.

Finally, if a person of any age would like to obtain a new skill, for example, making hand-carved furniture — which is best learned through an apprenticeship — why should he be prevented from taking any wage he voluntarily agrees to with the employer? A minimum wage takes away essential freedoms by preventing some from learning basic job skills and being able to provide for themselves, forcing them to be dependent on the government, or some charity or other person.

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