

The Independent Institute

Commentary

## Minimum Wage—Maximum Nonsense

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Minimum wage laws hurt the low-skilled workers they are intended to help. Raising the minimum wage hurts these workers even more. No matter how many ways economists say it, politicians, even those supposedly sympathetic to free markets, are content to peddle this harmful policy again and again. California's Democrat-dominated Assembly and Senate and its Republican Governor Schwarzenegger are the latest culprits pandering this economic nonsense.

California's legislature passed a bill that would raise the minimum wage from its current level of \$6.75 per hour to \$7.75 per hour over the next two years. The bill also mandates automatic yearly wage increases tied to the rate of inflation. In 2004 Schwarzenegger vetoed a bill that would have hiked the wage by \$1, but now he favors the increase and is only opposed to future automatic increases. But whether tied to the rate of inflation or not, when the minimum wage is increased low-skilled workers lose.

Deep down everybody knows it. We all know that if the government raised the minimum wage by \$20 an hour, many employees would be laid off. Businesses are not charities; they hire workers only when the workers create more revenue for the business than they cost in wages and compensation. We know that many workers' productivity is less than \$26.75 an hour and that they would be laid off if the minimum wage were that high. Yet people kid themselves when they believe smaller increases won't harm employment.

Some workers, particularly teenagers in part-time jobs, have very low productivity that makes it unprofitable to pay them more than \$6.75 an hour. For these workers the politicians' proposed 15 percent increase in the minimum wage will mean unemployment. In 2004 the Employment Policy Institute studied the impact of raising California's minimum wage by \$1. They found that approximately 18,600 Californians would lose their jobs and in the process would miss out on \$220 million in total income.

Governor Schwarzenegger should know that increasing the minimum wage hurts young low-skilled workers. He claims Milton Friedman is one of the two economists that most influenced his thinking on economics and that he even gives people Friedman's economic primer "*Free to Choose*" as a Christmas present. If he remembers reading the book he should recall that Friedman writes, "The high rate of unemployment among teenagers, and especially black teenagers, is both a scandal and a serious source of social unrest. Yet it is largely a result of minimum wage laws."

One need not look only to economists known for supporting free markets to find opponents of the minimum wage. Paul Samuelson, a strongly left-leaning Nobel Prize winning economist from MIT, wrote in 1970, "What good does it do a black youth to know that an employer must pay him \$2 an hour if the fact that he must be paid that amount is what keeps him from getting a job?"

Youths, minority youths in particular, are hardest hit by minimum wage laws because often they have not yet built up the skills to be profitably employed at higher wages. Many work part-time while in school. Others have just entered the workforce and are acquiring skills on the job that will help them earn higher wages in the future. Studies reflect this when they find that only 20 percent of all minimum wage earners are single earners who are heads of households. Unfortunately, by making would-be workers unemployed early in their lives, minimum wage laws undermine the very process of on-the-job learning that eventually leads to higher wages.

Minimum wage laws may hurt low-skilled workers, but they benefit union workers. Virtually no union worker earns the minimum wage, so how do they benefit? Minimum wage laws enhance the demand for union workers by unemploying their low-cost, low-skilled competitors. It is no accident that unions and their politicians are often the biggest supporters of increasing the minimum wage. But it's dishonest for them to claim they support increasing the minimum wage for the benefit of the poor.

Governor Schwarzenegger should veto any minimum wage increase, whether it's tied to inflation or not. If he's really interested in strengthening our economy and helping low-skilled workers earn more income, he should pursue policies that enhance our productivity. As our economy expands, a free and competitive labor market will ensure that workers earn as much as possible.



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