

## 5 Reasons Raising the Minimum Wage Is Bad Public Policy

The only way to boost wages is to boost worker productivity.

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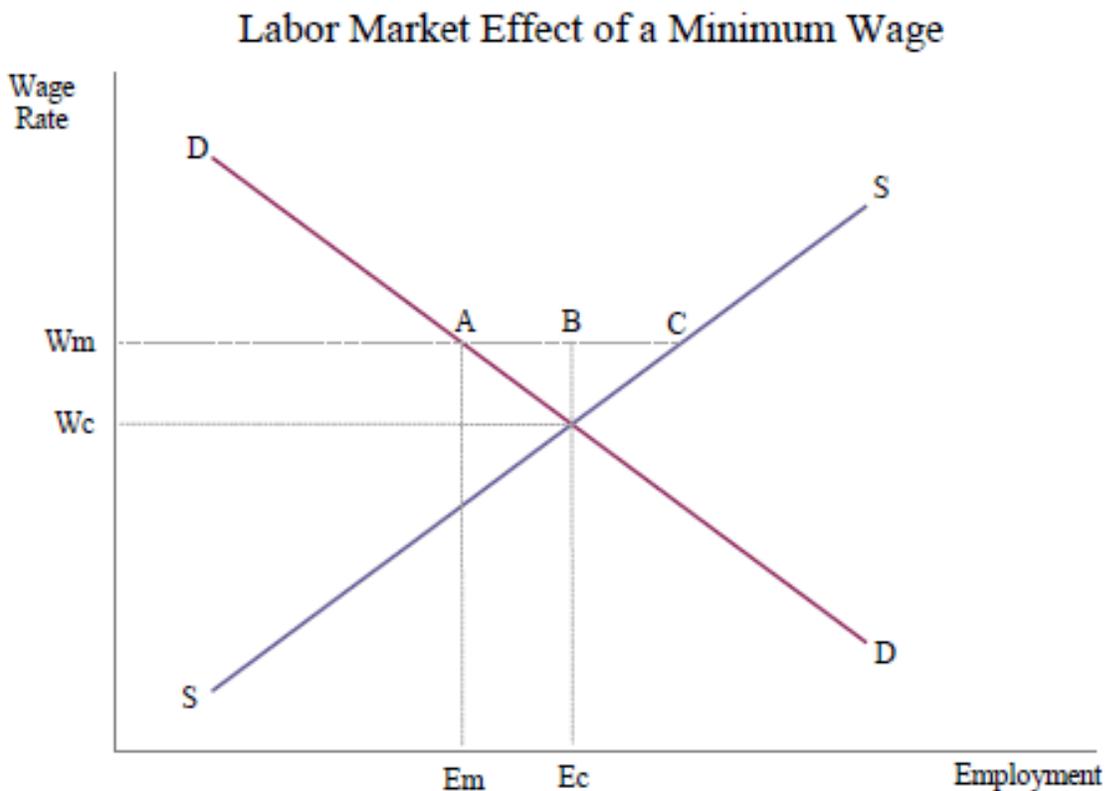
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**A**cross the country, campaigns are underway to force states or other jurisdictions, such as cities, to raise their minimum wages. The usual aim is a minimum wage of \$15. Why \$15? As Kendall Fellis of the Service Employees International Union [explained](#), “Ten dollars was too low and \$20 was too high, so we landed at \$15.”

# Price Floors Lower the Quantity of Labor Demanded

Economic theory is pretty clear about what the effects of a price floor will be. As Figure 1 shows, at the market clearing wage rate ( $W_c$ ), where labor supply meets demand, the quantity of employment demanded is  $E_c$ . But when a [minimum wage](#) law is passed, it becomes illegal for wages to be below  $W_m$ . As a result, the quantity of labor demanded falls from  $E_c$  to  $E_m$ .



As [Paul Krugman](#) explained:

So what are the effects of increasing minimum wages? Any Econ 101 student can tell you the answer: The higher wage reduces the quantity of labor demanded, and hence leads to unemployment.

This is one reason why [72 percent of US-based economists oppose a federal minimum wage of \\$15.00 per hour](#). In 2015, the [Employment Policies Institute](#) surveyed 166 economists in the United States on the

subject. They found:

- Nearly three-quarters of these US-based economists oppose a federal minimum wage of \$15.00 per hour.
- The majority of surveyed economists believe a \$15.00 per hour minimum wage will have negative effects on youth employment levels (83%), adult employment levels (52%), and the number of jobs available (76%).
- When economists were asked what effect a \$15.00 per hour minimum wage will have on the skill level of entry-level positions, 8 out of 10 economists (80%) believe employers will hire entry-level positions with greater skills.
- When economists were asked what effect a \$15.00 per hour minimum wage will have on small businesses with fewer than 50 employees, nearly 7 out of 10 economists (67%) believe it would make it harder for them to stay in business.
- A majority of surveyed economists (71%) believe that the Earned Income Tax Credit (EITC) is a very efficient way to address the income needs of poor families; only five percent believe a \$15.00 per hour minimum wage would be very efficient.
- The economists surveyed are divided on the impact a \$15.00 per hour minimum wage will have on poverty rates, as well as the impact it would have on the spending level for public programs such as the EITC, TANF, or others.
- At lower levels (under \$11.00 per hour) of proposed federal minimum wages, economists are divided largely by self-identified party identification as to an acceptable rate with a majority of Republicans and Independents who responded favoring lower minimum wages (\$7.50 per hour or less) and a plurality of Democrats who responded preferring a minimum wage between \$10.00 and \$10.50 per hour.

According to Winston Churchill, if “you put two economists in a room, you get two opinions, unless one of them is Lord Keynes, in which case you get three opinions.” This does not apply to the \$15 minimum wage.

# Evidence Empirically Points to Failure

Another reason most economists oppose a \$15 federal minimum wage is that the balance of empirical evidence suggests minimum wage hikes fail to achieve the policy goals they are intended to.

In 2008, economists [David Neumark and William L. Wascher](#) surveyed two decades of research into the effects of minimum wage laws. They focused on five areas: the effects of minimum wages on employment, minimum wage effects on the distribution of wages and earnings, the effects of minimum wages on the distribution of incomes, the effects of minimum wages on skills, and the effects of minimum wages on prices and profits. Here is what they say about the policy's impact on each:

## 1. Minimum wages reduce employment

In other work ([Neumark and Wascher 2007a](#)), we review the entire recent body of literature on the employment effects of minimum wages, encompassing more than one hundred papers written since the early 1990s...In our lengthier review of employment effects, we conclude that, overall, about two-thirds of the hundred or so studies that we discuss yield relatively consistent (although by no means statistically significant) evidence of negative employment effects of minimum wages – while only eight give a relatively consistent indication of positive employment effects. In contrast, of the thirty-three studies we identify as providing the most reliable evidence, more than 80 percent point to negative employment effects. (p.38-39)

## 2. Minimum wage hikes reduce the earnings of low-paid workers

...the evidence suggests that higher minimum wages tend, on average, to reduce the economic well-being of affected workers. Evidence regarding the effects on workers initially paid at or just above the minimum suggests that their labor income declines as a result of minimum wage increases, reflecting negative effects of minimum wages on employment and hours. (p.139)

### 3. Minimum wage hikes make some low paid workers better off at the expense of others

In our view, the combined evidence is best summarized as indicating that an increase in the minimum wage largely results in a redistribution of income among low-income families, with some gaining and others losing as a result of diminished employment opportunities or reduced hours, and some likelihood that, on net, poor or low-income families are made worse off. (p.189)

### 4. Minimum wage hikes make young workers less skilled, lowering their future earnings

With respect to schooling, the evidence is stronger, with most of the research for the United States pointing to negative effects...recent research that studies the question more indirectly finds that teens and youths exposed to higher minimum wages have lower wages and earnings when they are in their late twenties, consistent with reduced skill acquisition... (p. 223)

### 5. Minimum wage hikes make products and services more expensive

...the limited empirical evidence consistently indicates that increases in the minimum wage lead to increases in prices of goods and services produced with low-skilled labor...(p. 247-248)

## The Song Remains the Same

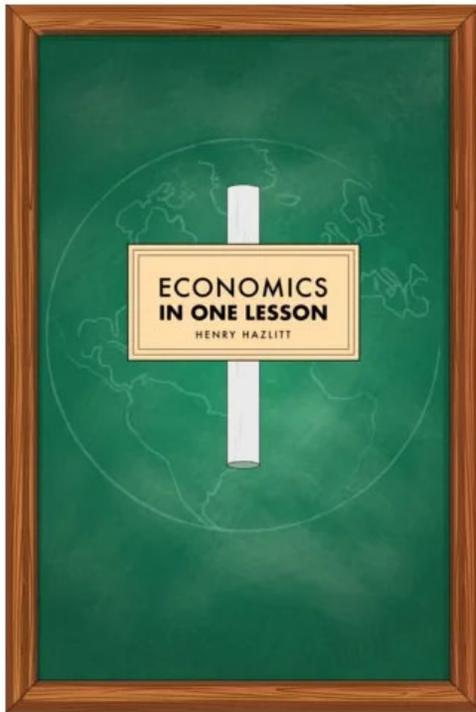
In 2014, along with economist J.M. Ian Salas, [they examined the subsequent literature](#). They concluded that “the evidence still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others, and that policymakers need to bear this tradeoff in mind when making decisions about increasing the minimum wage.”

Neumark updated his review of the research again in December 2018, asking “[When minimum wages are introduced or raised, are there fewer jobs?](#)” He writes:

The potential benefits of higher minimum wages come from the higher wages for affected workers, some of whom are in poor or low-income families. The potential downside is that a higher minimum wage may discourage firms from employing the low-wage, low-skill workers that minimum wages are intended to help.

If minimum wages reduce employment of low-skill workers, then minimum wages are not a “free lunch” with which to help poor and low-income families, but instead pose a trade-off of benefits for some versus costs for others. Research findings are not unanimous, but especially for the US, evidence suggests that minimum wages reduce the jobs available to low-skill workers.

The only way to boost wages [is to boost worker productivity](#). Making it illegal to hire low skilled workers—which is all minimum wage laws do—does nothing to help this.



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