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Minimum Wage Increase Is Bad Economic Policy

The President is again pivoting back to the economy by launching a series of trips on his economic plans, a focus of which will be raising the minimum wage from the current \$7.25 an hour. The first trip will be this Thursday to Austin, Texas.

Earlier this year, in his [State of the Union](#) address, President Obama called for increasing the federal minimum wage to \$9.00 an hour – an increase of 24 percent – stating that “this single step would raise the incomes of millions of working families.” [Senator Harkin](#), chairman of the Senate HELP Committee, introduced legislation in March to raise the minimum wage to \$10.10 an hour, an increase of 39 percent.

Democrats have portrayed the minimum wage as a way to improve the quality of life for the working poor; however independent studies have repeatedly disproved this theory.

Harmful to Young Workers

Despite the claim that raising the minimum wage will benefit working families, according to the [U.S. Department of Labor](#), minimum wage workers tend to be young. About half of all workers paid the federal minimum wage or less are less than 25 years old. Among employed teenagers paid by the hour, 21 percent earned the minimum wage or less, compared with three percent of workers age 25 and over.

Many beneficiaries of minimum wage laws report family incomes that are twice the poverty level. According to Census Bureau data, the average family income of a beneficiary from the last increase in the federal minimum wage was more than \$47,000 a year. It is estimated that just 11 percent of workers paid the minimum wage are actually the working poor.

Another [concern](#) is that raising the minimum wage could hurt opportunities for teens to land their first job -- and with it the chance to learn valuable life and work skills that cannot be taught in the classroom. Teens are typically entry-level workers with limited job skills. They learn the importance of meeting deadlines, how to report to a manager, and how to get along with coworkers and customers. The experience allows young workers to acquire skills that can put them on a path for future success and salaries above the minimum wage.

Proponents of increasing the minimum wage argue that minimum wage employees are dependent on government policies to receive a wage increase. In his State of the Union speech, President Obama said, “Working folks have to wait year after year for the minimum wage to go up while CEO pay has never been higher.”

According to [research](#) using more than two decades of Current Population Survey data, the majority of minimum wage workers earn a pay increase their first year on the job.

Also, employers report that when their costs are arbitrarily increased, such as with minimum wage hikes, they become more likely to seek out [experienced](#) workers and less likely to take a chance on young workers. This delays the opportunity for young workers to gain important on-the-job training. This prospect is particularly concerning considering the unemployment rate for teenage workers is now [24.1 percent](#).

Harmful to All Workers

If the government mandates that certain workers be paid a higher wage, employers make [adjustments](#) to pay for the added costs. Currently, the majority of minimum wage workers are employed in the leisure and hospitality industry – establishments typically with thin profit margins. Common adjustments include reduced hiring, cutting employee work hours, reducing benefits, and charging higher prices.

Any increase in salaries for minimum wage workers will be at least partly offset by the higher prices they have to pay as consumers. The higher prices will be felt especially by lower wage workers, as poorer people typically spend a larger share of their income than more affluent people do. As noted by [Christina Romer](#), former chair of President Obama’s Council of Economic Advisers, “this price effect may harm the very people whom a minimum wage is supposed to help.”

Minimum wages stifle job opportunities for low-skill workers, youth, and minorities -- which would be particularly damaging in today’s sluggish economy. National unemployment remains high. While we have seen some job creation this year, it is too low to get the volume of workers waiting on the sidelines back into fulfilling employment. We should adopt policies that encourage hiring – not discourage it.