Joint Economic Committee
Republicans
Representative Kevin Brady
Chairman

REPUBLICAN STAFF ANALYSIS

Washington is the Worst Place to set a Minimum Wage

July 25, 2014

INTRODUCTION AND SUMMARY

Income vs. jobs. Supporters of federal minimum wage legislation portray it as an antipoverty device, claiming that it has no adverse employment effects. Some empirical studies even find no employment losses from minimum wage increases, and minimum wage advocates use these studies to argue that the federal government can order employers to give low-wage workers a raise without costing them jobs. However, a larger body of empirical work finds that minimum wage legislation is not an effective antipoverty measure and, in fact, is harmful to employment.[1] In February of this year, a JEC Commentary, *Increasing the Minimum Wage—New Fallacies and Old Realities*, and a CBO report *The Effects of a Minimum-Wage Increase on Employment and Family Income* refuted the assertions that minimum wage increases fight poverty effectively and do not cost jobs.[2] Less than one-fifth of the resulting increase in wage income goes to people below the poverty line, and CBO's central estimate of employment loss for the Administration's current minimum wage proposal is 500,000 jobs.[3]

The minimum wage debate typically pits income against employment effects, whereby the latter is measured in lay-offs. But leveling wage rates and prohibiting hires at lower wages also can frustrate efficient market adjustments, block job creation, and be anti-competitive.

The minimum wage debate has glossed over the important difference, in terms of these other considerations, between setting a wage floor within a state or locality and setting one for the nation.

Additional problems. This analysis takes an even wider perspective. Studies that find no employment effect carefully select the effects they measure, such as changes in *existing* employment in a specific occupation in particular locations during a limited timeframe. They ignore the political management of the implementation of minimum wage increases to avoid near-term layoffs and, critically, ignore the impediment to new job creation that minimum wage laws establish. Wage fixing by the federal government across the country and in perpetuity is anticompetitive and reduces the allocative efficiency of the labor market. Why do

[1] See, for example, *Minimum Wages*, by David Neumark and William L. Asher, MIT Press, 2010.
[2] See also, "Who Really Gets the Minimum Wage," David Neumark, *The Wall Street Journal*, July 7, 2014.
[3] *The Effects of a Minimum-Wage Increase on Employment and Family Income, February 2014, p.1.*

incumbent businesses that do not employ low-wage workers, and why do labor unions whose members earn more than the minimum wage support a higher minimum wage rather than other income support directly targeted at the poor? A wider perspective dispels the notion that minimum wage policy is conducted necessarily or exclusively to help the poor.

Biased debate. The subject of the federal minimum wage is highly politicized. Removed from the debate are the crucial distinctions between a minimum wage at the federal level as opposed to state and local levels, and of the terms and conditions that accompany specific proposals—such as inflation indexing, accommodating inexperienced workers, or the possibility of any downward adjustment. Instead, the debate is reduced to the overall tradeoff between workers' income gains and layoffs, with no consideration of the different effects on geographic and occupational labor market segments, and the extent of the effects based on the state of the economy during the business cycle.

There are important details to a minimum wage proposal, such as indexing the rate to inflation, that do not receive the attention they deserve in the ongoing debate over the policy's merits.

Some economists lend essentially unqualified support to proposals for increasing the federal minimum wage.[4] These economists have equally supported the Administration's proposed increases to a permanent hourly rate of $9 and to an hourly rate of $10.10 indexed to inflation. They have led the President to say that there is no solid evidence a higher minimum wage costs jobs. Yet minimum wage advocates, and their favored studies, say nothing about minimum wage laws obstructing entry into the labor market or the efficient allocation of labor and capital over time in the production process and among different locations. In fact, no one has offered a systematic method for setting a single, permanent, inflexible, nationwide wage floor.

No one really believes that raising the minimum wage does not have harmful employment effects. On the contrary, minimum wage proposals are designed to obscure adverse employment effects with effective dates set well in the future, phased increases, and other qualifications to how they apply. Considering the political management of minimum wage implementation, it should not be surprising that narrowly focused studies can claim to find no negative effect.

The Congressional Budget Office (CBO) earlier this year had the courage to project that the Administration's current proposal to raise the federal minimum wage would cause substantial job losses. However, its report did not question why there should be nationwide wage uniformity in the first place. CBO did not speak about a permanent nationwide wage floor's

[4] See, for example, an open letter to the President and Congress released by the Economic Policy Institute signed by 600 economists in January 2014.

harm to particular areas, job functions, or the future earnings profile of people who are denied work experience because of the minimum wage, nor did CBO explain the damage from raising the floor in the last recession or the damage in the next one from setting it 40% higher.

The Administration's wage proposal would link an increased federal minimum wage to the rate of inflation measured at the national level, unrelated to the general state of the labor market, and entirely disconnected from what goes on in any particular part of the economy. Areas where productivity is lagging, wages are relatively low, and prices are stable would see the price of labor pulled up arbitrarily by inflation at the national level.

Lack of adjustability and differentiation in its application make a minimum wage law worse, especially at the federal level, yet that is what the Administration is proposing.

Why a "hard" wage floor nationwide? Advocates for a single, national minimum wage rate promote the notion that trading off higher wage income for job loss is worthwhile as long as the job loss is not too pronounced. Yet this view accepts perpetual unemployment and labor force disengagement as part of a calculated federal policy. There is persistent unemployment in many parts of the country among workers of all ages with limited skills, and young people in particular are largely disengaged from the labor force. As of June, 9.1% of those 25 and older with no high school diploma are unemployed and 21% of 16 to 19 year olds are unemployed. Raising the bar for getting a job to the same absolute level across the entire country does not help these individuals. Federal policymakers should ask whether they truly accept the advocates' proposition, given the alternative considerations that differentiated wage floors could mean less unemployment and labor force disengagement. Under certain conditions, a minimum wage can even increase employment and wage income, but the conditions are not the same everywhere, nor are they constant.

Advocates for a single, national minimum wage rate implicitly accept a degree of perpetual unemployment and labor force disengagement.

Differentiated wage floors could do less harm in this regard.

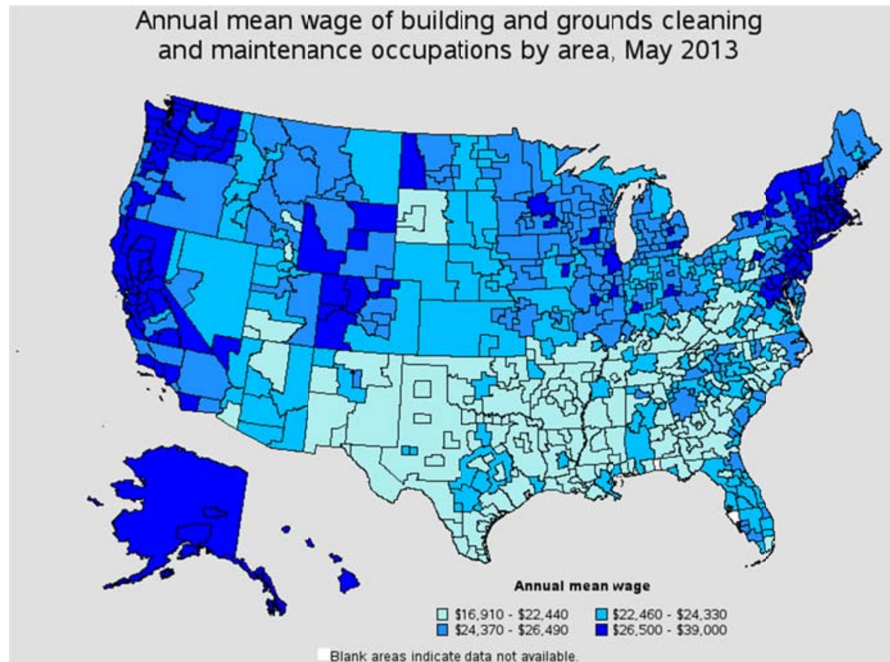
WIPING OUT WAGE DIFFERENTIALS

Minimum wage laws collapse many different wage levels into one. Low-wage jobs are not all alike; they vary in desirability based on physical effort, skills required, commuting cost, and so on. Even for low wage jobs, work functions differ widely by the demands they place on workers. Different aptitudes and skills are required for different jobs, such as cashiers reliably collecting payment and making change; servers being attentive and personable with customers; and phone bank operators communicating clearly with callers. The need for physical exertion and strength and the risk of injury also vary widely, for farm workers compared with ushers and parking lot attendants for instance. Wage differentials help to match workers' preferences, aptitudes, and skills to job functions. When the government prescribes a uniform wage rate, it overrides those differentials.

Fast Food Cooks	
SOC Code 35-2011	
May 2013	
Area name	Hourly Mean Wage
Alabama	$ 8.13
Alaska	$ 8.18
Arizona	$ 8.27
Arkansas	$ 8.28
California	$ 8.29
Colorado	$ 8.32
Connecticut	$ 8.36
Delaware	$ 8.37
District of Columbia	$ 8.38
Florida	$ 8.39
Georgia	$ 8.41
Guam	$ 8.41
Hawaii	$ 8.44
Idaho	$ 8.45
Illinois	$ 8.45
Indiana	$ 8.48
Iowa	$ 8.51
Kansas	$ 8.55
Kentucky	$ 8.65
Louisiana	$ 8.66
Maine	$ 8.74
Maryland	$ 8.81
Massachusetts	$ 8.85
Michigan	$ 8.85
Minnesota	$ 8.90
Mississippi	$ 8.96
Missouri	$ 8.97
Montana	$ 8.99
Nebraska	$ 9.02
Nevada	$ 9.07
New Hampshire	$ 9.09
New Jersey	$ 9.12
New Mexico	$ 9.20
New York	$ 9.22
North Carolina	$ 9.24
North Dakota	$ 9.29
Ohio	$ 9.37
Oklahoma	$ 9.40
Oregon	$ 9.41
Pennsylvania	$ 9.43
Puerto Rico	$ 9.49
Rhode Island	$ 9.54
South Carolina	$ 9.54
South Dakota	$ 9.60
Tennessee	$ 9.61
Texas	$ 9.65
Utah	$ 9.67
Vermont	$ 9.74
Virgin Islands	$ 9.85
Virginia	$ 9.91
Washington	$ 10.23
West Virginia	$ 10.61
Wisconsin	$ 10.63
Wyoming	$ 11.69

Source: BLS Occupational Statistics Query System.

The Bureau of Labor Statistics (BLS) for May 2013 shows 27 different occupational codes with average hourly wages below $10.10 per hour, of which seven relate to serving food (excluding cooks, food preparation workers, and hosts) that may receive income from tips and have a lower minimum wage. For the 27 occupational codes, BLS shows 18 different average hourly wage rates, and for the 20 that exclude servers, it shows 15 different average hourly wage rates.



One also does not have to travel a great distance to observe wide differences in the cost of living and different wage levels for the same jobs. The table to the left shows the average wage for fast-food cooks in the 50 states, Washington, D.C., Guam, Puerto Rico, and the Virgin Islands. The map above shows average wages by statistical metropolitan area for building and grounds cleaning and maintenance occupations. The average annual wage ranges from $16,910 to $39,000 across the country. These averages, of course, represent many different individual wage rates.

Allocative function of wages. Wage differentials shape the nature and location of the production process and guide workers in their choice of occupation; how much to invest in education and training; where to live; and how much to work. The beauty of the market system is that its wages and prices continually signal market participants the need for re-optimization without having to determine what changes will accomplish it. Comparisons of different wage levels and of wages with capital costs affect workers' and employers' decisions throughout the wage scale; the comparisons do not stop being relevant below $10.10 an hour or any other particular wage level.

The minimum wage prevents wage differentials from steering workers to the most suitable employment by preference and aptitude. Given that the rate of pay is the same, workers will gravitate toward the easiest and most conveniently located jobs. The least sought-after jobs, even if they remain viable at the minimum wage, may not support pay premiums on top of the minimum wage. Hence, the more difficult, unpleasant, or inconveniently located jobs cannot attract applicants willing to take them for incremental pay; only workers left unemployed once the sought-after jobs are filled apply for those jobs.

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From the employers' perspective, consider a bank that is attracting an increasing number of account holders and must decide how many ATMs and tellers to add and how much to extend banking hours. The wage rates of ATM service personnel, IT professionals, tellers, supervisors, office support and maintenance staff all matter to those decisions. If a minimum wage law levels some of the wage rates, it surely affects the bank's choices.

Even if employers do not respond to a wage mandate with layoffs or cutbacks in hours, they still are likely to hire fewer additional minimum wage workers and look for different skills. Rather than hire additional tellers whose pay the bank must increase, it might hire more supervisors whose salaries are not subject to the mandate and include in their functions some traditionally performed by tellers. Such responses are subtle, may not occur immediately; and may be driven by a variety of factors, which makes it difficult to quantify a minimum wage law's effects in a short time.

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Competition among the States. As of June 1, 2014, there were 21 different minimum wage rates among the 45 states and the District of Columbia that have state minimum wage laws, of which five states have two different rates depending on the size of the employer; five states have no minimum wage law.[5] Many localities also have minimum wage laws. State and local policymakers are positioned to consider the conditions prevailing in the relevant market segments of their jurisdictions when they decide the level, timing, and terms of a minimum wage. The Administration has never explained how a single federal wage floor for

[5] As of June 1, 2014, 22 states and D.C. have minimum wage rates that exceed the federal level, 19 states, Guam and the Virgin Islands have the same rate, four states, American Samoa and Puerto Rico have lower rates, and five states have none. Many bills to raise minimum wage rates have been introduced recently by state legislatures and some have passed typically with phased implementation. Minnesota is an example. See, "State Minimum Wages," *National Conference of State Legislatures*, 7/3/2014.

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the whole country is better or more appropriate for the various jurisdictions.[6]

The fact that states and localities can set wage rates only for limited areas within the national labor market also means that competition among them constrains how high they can set their individual rates. The federal government, on the other hand, not only overrides adaptation of wages to relevant market conditions, it also reduces competition when it sets an effective national wage floor that exceeds any of the state and local rates. Indeed, lessening competition may well be a motivating factor in federal minimum wage proposals, as discussed below.

THE LOSS OF WAGE FLEXIBILITY

The federal minimum wage law inserts a "hard" floor that does not expire and makes no allowance for unforeseen events.

The federal minimum wage law inserts a "hard" floor that does not expire and makes no allowance for unforeseen events. Congress scheduled three successive increases in the federal minimum wage without knowing the Great Recession was coming. The increases went into effect before, during, and right at the end of the recession, raising the minimum wage from \$5.15 to \$7.25 per hour by June 2009. Just as the nation was desperate for new job creation to recover from the steepest job loss in decades, employers faced a total increase in the minimum wage of more than 40%. It is obvious that the size of the increases in the minimum wage and their timing did not fit the labor market conditions as they existed when implemented, yet the programmed wage increases became effective nonetheless, and the \$7.25 rate did not change.

Figure 1

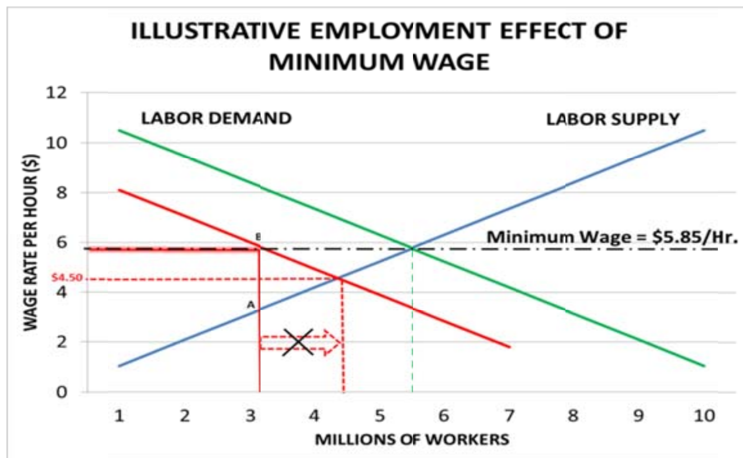
[6] It is interesting that the Swiss Federal Council (the cabinet) and both houses of Parliament urged voters to reject a recent minimum wage proposal because it did not take into account regional and sector differences that might merit different pay. Switzerland is a country of 8 million people two-thirds the area of West Virginia. Switzerland has no minimum wage; its youth unemployment is 3%.

The federal government now wants to do the same thing again, specifying higher absolute wage levels in advance. Senator Tom Harkin's bill (S.2223) that the President has endorsed would continue raising the minimum wage in three more steps of 95 cents each to $10.10 per hour by 2016 and index it to inflation for subsequent years.

Slowing job recovery. In the recession, labor demand shifted substantially to the left putting downward pressure on wages, but wages are famously "sticky" downward in the sense that employers may be reluctant or unable to cut them. The downward adjustment to market wages may occur predominantly with respect to new or returning jobs. Figure 2 shows the leftward shift in demand (from the green to the red line). If employers do not cut the wage of workers they retain, employment initially falls nearly to 3 million people in the illustration.

Figure 2 also shows a minimum wage of $5.85 per hour, which for ease of exposition is matched to the prerecession market wage. At that level, it does not cause workers to lose their jobs initially but it prevents many unemployed workers from regaining employment because it outlaws rehiring them at a lower wage, as indicated by the crossed out red arrow. Any minimum wage above $4.50 in Figure 2 will contribute to unemployment by foreclosing job openings.

Figure 2



Administration supporters have offered many explanations for the slow job recovery including aging baby boomers, skills gaps, and secular stagnation; but they do not talk about the effect of the last three minimum wage increases. Might raising the wage at which it is legal to offer and accept employment by a cumulative 40% not have contributed to the poor state of the job market and the current high rate of long-term unemployed?

Might raising the wage at which it is legal to offer and accept employment by a cumulative 40% not have contributed to the poor state of the job market?

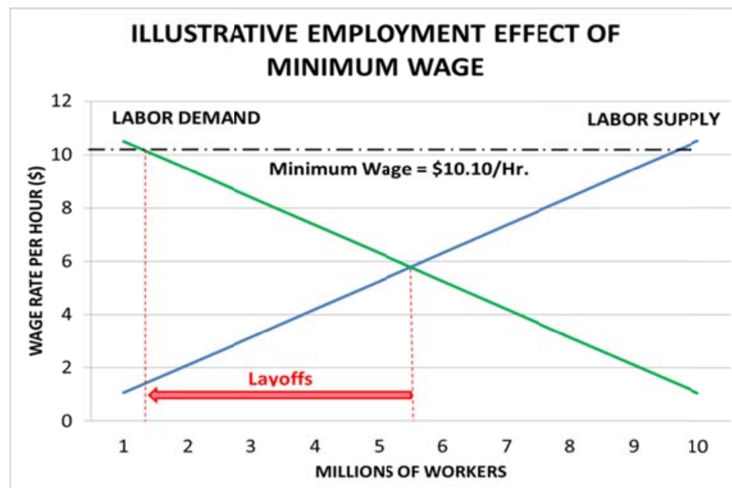
THE MYSTERY OF THE "MISSING" LAYOFFS

During the recent recession and subsequent recovery, shifts in labor demand, first down, then up, dominate and obscure the minimum wage's contributions to hardship in the labor market.

Shifts in labor demand or supply. As the economy has been recovering, labor demand has been shifting back to the right and employment is rising again, albeit more slowly than it would without the minimum wage. The federal minimum wage had been $5.15 up to a few months before the recession. A worker who had been earning that wage and lost his job could not be rehired for less than $7.25 per hour after the recession. Under the President's proposal that worker could not be rehired for less than $10.10 per hour. Higher minimum wage levels cause additional adverse employment effects: more layoffs during the recession, prolonged unemployment of many laid-off workers, and, eventually, barring reemployment even as labor demand returns to its prerecession state, permanent unemployment (as in Figure 3). However, the shifts in labor demand, first down, then up, dominate and obscure the minimum wage's contributions to hardship in the labor market.

Deliberate implementation. Figure 3 is a common economics textbook depiction of a minimum wage's effect on employment. Starting with the presumption that the minimum wage causes large, immediate layoffs, as suggested by the solid red arrow, supporters of minimum wage laws claim that if this cannot be shown to have happened in practice, then there is something wrong with the theory and there is no reason not to legislate a raise for low-wage workers.

Figure 3



The political strategy to rationalize mandating wage increases has been to fashion proposals that are not likely to cause easily identifiable employment losses, invoke studies that have failed to identify near-term job losses in the past, and avoid extensive analysis of the increases proposed.

The solid red arrow, indeed, is what politicians fear and want to delay, reduce, and obscure. No legislator will cast a vote that immediately causes many workers to lose their jobs. The political strategy to rationalize mandating wage increases has been to fashion proposals that are not likely to cause easily identifiable employment losses, invoke

studies that have failed to identify near-term job losses in the past, and avoid extensive analysis of the increases proposed.

Policymakers generally make allowances for types of employment that are especially wage sensitive and choose a timetable for implementation to minimize layoffs. Among other accommodations, they choose implementation dates in the future and phase in increases, just as the President's proposal would do. Setting dates in the future and raising the wage incrementally discourages employers from hiring employees in the first place who they would have to lay off subsequently and may induce reductions in staff before their pay must increase. The piecemeal strategy also tends to disassociate higher prices and other unwelcome consequences at the retail level from a minimum wage increase, as news coverage tends to focus on its adoption rather than its implementation.

Policymakers generally make allowances for types of employment that are especially wage sensitive and set implementation dates in the future to render negative employment effects less noticeable.

Textbooks aim to illustrate the employment effect of the minimum wage, not model the political management of it. Their stylized depictions also may not emphasize that they represent low-wage market segments as opposed to average wage earners. Minimum wage supporters exploit these simplifications to knock down a "straw man" prediction of layoffs with claims of contrary empirical findings without an alternative theory.[7]

Adding a minimum wage to other market restrictions shuts out lower paid workers and the lower cost goods and services they produce, which prevents job creation and a return to the unconstrained market equilibrium but may not cause incremental layoffs.

Jobs foreclosed not counted. Another more basic problem with the claim that the minimum wage causes no loss of employment is the starting point. Suppose the effective wage rate in Figure 3 is $10.10 per hour to begin with because of restrictive licensing requirements or union contracts. Adding a minimum wage to shut out lower paid workers and the lower cost goods and services they produce causes no incremental job loss but prevents job creation and a return to the unconstrained market equilibrium.

THE MINIMUM WAGE IS A BARRIER TO COMPETITION

The case of Washington, D.C. The District of Columbia recently provided an example of how incumbent firms may use minimum wage legislation to limit competition from rival firms with lower costs. Starting in November 2010, Wal-Mart announced plans to open as many as six stores in the District of Columbia. In 2012, three stores were under construction and two were scheduled to open that fall. The *Washington Post* Editorial Board observed that Wal-Mart brings more consumer

[7] What they may offer is an assortment of ad hoc hypothetical reasons of why layoffs may not occur under specific sets of conditions, but among other problems, they do not support a wage floor at the federal level in perpetuity. Also, see footnote 16.

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choices at lower prices to the District, including in currently underserved areas.[8]

Washington, D.C.'s $8.25 per hour minimum wage was one of the highest in the country but in July 2013, the D.C. Council passed the *Large Retailer Accountability Act* (LRAA) to raise it by 51% to $12.50 per hour for new stores like Wal-Mart's. Existing large retailers such as Target were granted a 4-year reprieve. At the higher rate, Wal-Mart's business case for the District would not work.[9] As Wal-Mart threatened to pull out of the District, the mayor vetoed the bill calling it a "job killer." The D.C. Council's response was a smaller increase in the rate and a reduction in the rate differentials with Maryland. The Council adopted a minimum wage of $11.25 unanimously for all stores that was veto proof and persuaded the adjacent counties in Maryland to raise their minimum wage rates as well. The new D.C. rate will be fully effective in July 2016, 2.5 years hence. However, across the Potomac in Virginia the much lower federal rate of $7.25 prevails.

In the State of the Union Address of February 2013, the President proposed a minimum wage of $9 per hour, but later in the year, he endorsed the higher rate of $10.10, a change he never explained. His first proposal was 28% lower than the minimum the D.C. Council adopted in July ($9 versus $12.50) whereas his latest proposal is only 10% lower ($10.10 versus $11.25); the existing federal rate is 35.6% lower. Of course, Virginia would have to raise its minimum from $7.25 to $10.10 if the proposal becomes the law of the land. Similar comparisons apply between relatively high and relatively low wage counties and states throughout the country.

Nearly 50 years ago, in a 1966 *Newsweek* column, Nobel laureate Milton Freedman explained the motives behind a minimum wage increase Congress had just enacted (effective two years later in 1968):

> Some workers who already receive wages well above the legal minimum will benefit—because they will face less competition from the unskilled. That is why many unions are strong supporters of higher minimum-wage rates. Some employers and employees in places where wages are already high will benefit because they will face less competition from businessmen who might otherwise invest capital in areas that have large pools of unskilled labor. That is why Northern manufacturers and unions, particularly in

[8] "How a D.C. wage bill—and the council's hubris—threaten city development," *The Washington Post*, July 8, 2012.
[9] See, "Wal-Mart: The D.C. Council has forced our hand," by Alex Barron, Wal-Mart's regional general manager, *The Washington Post*, July 9, 2013.

> New England, are the principal sources of political pressure for higher legal minimum-wage rates (September 26, 1966).[10]

Wal-Mart received 23,000 job applications for 600 positions at the two stores it opened in December of 2013.[11] One should also note that Wal-Mart does not pay the same wage everywhere but offers wages commensurate with market conditions. In Williston, North Dakota, for example, where the economy is booming, Wal-Mart is offering entry-level wages above $17 per hour—nearly 2.5 times the current federal minimum wage.

Had the mayor not vetoed the LRAA and Wal-Mart not opened the first two stores, the D.C. Council would have achieved its purpose of turning away competition to incumbent interests. Yet the loss of hundreds of jobs would not register with the kind of study that claims the minimum wage does no harm to employment.

Had the mayor not vetoed the LRAA and Wal-Mart not opened the first two stores, the D.C. Council would have achieved its purpose of turning away competition to incumbent interests. Yet the 600 jobs lost with the first two stores and the potential loss of 1,200 more associated with planned additional stores would not register with the kind of study that claims the minimum wage does no harm to employment. This is how the President could claim, "there's no solid evidence that a higher minimum wage costs jobs" a short while after the mayor of the nation's capital had called a local minimum wage bill a "job killer."[12]

POPULAR REPRESENTATIONS OF THE MINIMUM WAGE

The living wage rate. The most widely cited reason for the federal minimum wage is to give American families with breadwinners in low-paying jobs a raise so they can afford to consume more. The notion of providing a living wage resonates with the public, but dictating a single, inflexible wage floor for all occupations throughout the country is unlikely to accomplish that objective. A single wage rate cannot establish competitive compensation, maximize wage income, or even generate a particular level of income for workers across the country. In addition, there is the problem of upward pressure on prices that a minimum wage can cause, especially one indexed to inflation.

The notion of providing a living wage resonates with the public, but dictating a single, inflexible wage floor for all occupations throughout the country is not well suited to that objective.

[10] On the map above, note the dark shades of blue in the Northeast indicating relatively high wages. Many Senators from Northeastern states are among the cosponsors of the bill to raise the federal minimum wage to $10.10 per hour.

[11] That is not a typographical error. See, NBCWashington.com, November 19, 2013 or "Wal-Mart has a lower acceptance rate than Harvard," http://www.washingtonpost.com/blogs/wonkblog/wp/2014/03/28/wal-mart-has-a-lower-acceptance-rate-than-harvard/.

[12] The full quotes are: President Obama, "Some say it actually hurts low-wage workers—businesses will be less likely to hire them. But there's no solid evidence that a higher minimum wage costs jobs (December 4, 2013)." And, Mayor Vincent Gray, "The bill is a job killer, because nearly every large retailer now considering opening a store in the district has indicated they would not come here or expand here if this bill becomes law (September 12, 2013)."

Most workers earning at or close to the minimum wage are not the sole earners in a household, and most of them are not even in poor households.

A large percentage of minimum wage earners are young people living with their parents.

Setting a minimum wage rate with reference to the poverty line, for example, is an artificial exercise. The poverty line varies with household size and composition; it is arbitrary to choose any particular line to set a wage rate that applies to all workers.[13] Further, a minimum wage job will constitute the sole source of household income only in exceptional circumstances. Most workers earning at or close to the minimum wage are not the sole earners in a household, and most of them are not even in poor households. A large percentage of minimum wage earners are young people living with their parents. Further, for temporary and part-time workers and those who lose their job or cannot get a one in the first place, multiplying the wage rate by 40 hours per week and 52 weeks per year has no meaning.

The cost of living also varies widely across the country. Everyone knows that the income necessary to support a given level of consumption tends to be much higher in large cities than in smaller ones, for example. In addition, there are many different state and federal support programs for low-income individuals and families. A uniform wage rate thus has no necessary connection either to the level of household income, earned and unearned, or to the relevant cost of living around the country.

Champions of a national minimum wage focus on current income, but to the extent a minimum wage raises the bar for access by inexperienced workers to jobs that can lead to raises and promotions, it may foreclose an increasing stream of income that meets or exceeds any measure of adequacy.

A worker's age and lifetime earnings profile are important considerations for what might constitute an appropriate starting wage. In 2013, half the workers who received a wage rate at or below the federal minimum were less than 25 years old.[14] Champions of a national minimum wage focus on current income, but to the extent a minimum wage raises the bar for access to jobs that can lead to raises and promotions, it may foreclose an increasing stream of income that meets or exceeds any measure of adequacy for inexperienced workers.

For the government to outlaw wages below a certain rate across the country for all time based on some notion of decency is misguided. In contrast to rent control or anti-gauging laws, for example, the government does not even claim any harm from the work performed or the income earned, its only claim is that the income is insufficient, and by an undifferentiated standard no less. The minimum wage takes away choices from currently unemployed workers. Contributing to one's livelihood does not become detrimental at a particular rate of compensation, and outlawing it only increases dependency.

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[13] In 2013, the poverty threshold for a single person under 65 was at an annual income of US$11,490; the threshold for a family of four, including two children, was US$23,550.
[14] "Characteristics of Minimum Wage Workers, 2013, U.S. Bureau of Labor Statistics, March 2014.

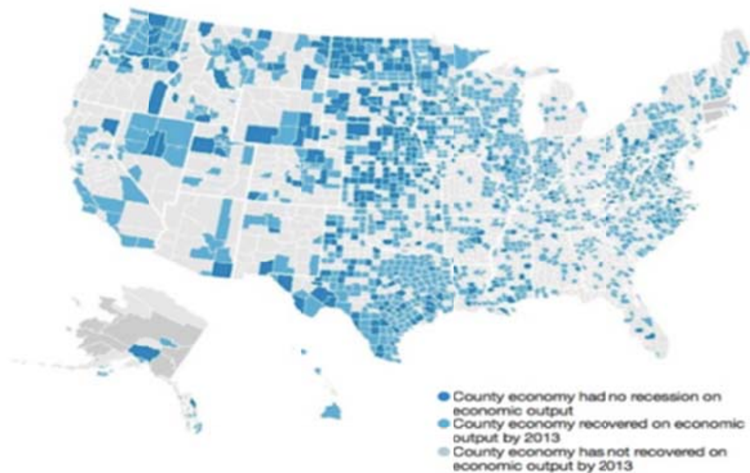
"Keynesian" boost. Another argument for the federal minimum wage is to maintain or boost the consumption of low-income families when a recession depresses the labor market (or a recovery takes many years). Some Keynesians believe this increases aggregate demand and benefits the economy,[15] but no part of the theory necessitates a uniform or permanent wage floor. A percentage increase in wage rates would accomplish this in theory, and when full employment returns, the Keynesian argument for government boosts to consumption expires in any event.

Keynesian arguments for boosting wage income to stimulate spending do not support a uniform or permanent wage floor.

Employers with monopoly power. A minimum wage can restore a competitive wage level when employers pay workers less than their marginal revenue product. A commonly cited case is that of a monopoly employer (a monopsonist) who, faced with a mandate to raise the wage, would choose to increase employment as well.[16] But the appropriate wage will not fit all "company towns" much less all towns. The competitive wage level differs across the country, for different occupations, and it changes with economic growth. Consider the following map, which shows the economic recovery rates by county. Who can seriously claim that the same wage rate is appropriate for all counties?

The classic theoretical argument for a minimum wage in cases where an employer has market power cannot support a single wage floor for the whole nation.

MAP 1. Economic Output (GDP) Recovery Rates in County Economies, 2013



Note: The dark grey areas in Conn., R.I., parts of Alaska, Mass. and Va. are counties without county governments.
Source: NACo analysis of Moody's Analytics Data

Presented by Bernard L. Weinstein, Ph.D., Associate Director, Maguire Energy Institute, Cox School of Business, Southern Methodist University, *National Economists Club,* 5/22/2014.

[15] Wage mandates only shift money from consumers and employers to employees and raise the cost of hiring, so the net benefit to the economy is dubious even by Keynesian logic.

[16] A similar argument holds that search costs discourage workers from leaving underpaid employment and discourage employers from offering a higher wage to attract job applicants because their existing employees may then demand more pay as well. Another argument is that the minimum wage improves worker productivity. Such arguments tend to ignore differentiated market responses, including hiring bonuses, commuting allowances, and performance awards. In general, as pointed out in footnote 7, such arguments address specific conditions that are not the same throughout the country and through time and hence cannot justify a permanent, nationwide wage floor.

CONCLUSION

Advocates ignore the efficiency loss from leveling wage differentials and raising the cost of labor relative to capital.

Minimum wage advocates have succeeded in condensing the evaluation of their proposals to the income versus employment trade-off and making the supposed absence of layoffs their litmus test. They ignore the efficiency loss from leveling wage differentials among different job functions and locations, and raising the cost of labor relative to capital. They also accept a degree of permanent unemployment and labor force disengagement as the price for higher wages.

Competition constrains state and local governments in the wage rates they can set, but not the federal government, which can impose a single floor within the nation's borders.

The minimum wage is a barrier to wage competition wherever it is applied, but at the local and state level, relevant economic conditions are likely to influence how high it is set, as the multitude of different state and local rates suggests. Competition constrains state and local governments in the wage rates they can set, but not the federal government, which can impose a single floor within the nation's borders.

Uniformity and permanency are key features of the Administration's federal minimum wage proposal, yet are not necessary to convey the benefits supporters publicly attribute to it.

The federal minimum wage acts as a backstop to the states and localities with relatively high wage rates, especially where they result from wage and other labor laws, licensing requirements, and union contracts—as opposed to higher productivity—by preventing the creation of lower-paying jobs. Indexing the minimum wage to inflation enhances the minimum wage's effectiveness as a backstop, whereas making it flexible or temporary will weaken it in that capacity. Uniformity and permanency, indeed, are key features of the Administration's federal minimum wage proposal, yet are not necessary to convey the benefits supporters publicly attribute to the proposal.

Studies that find no adverse employment effects from minimum wage increases ignore the political management of the implementation.

Studies whose general conclusion is that minimum wage laws raise income with no adverse effect on employment ignore all this. They also ignore that governments setting the minimums do so under consideration of adverse consequences. Minimum wage laws do not fall from the sky and governments are not oblivious to negative employment effects. The process that led to a smaller increase in the D.C. minimum wage and the effort to persuade adjacent counties in Maryland to raise theirs illustrates this well. If job losses are hard to find, it may be attributable to the implementation strategies that obscure them.[17]

The most fundamental error of such studies is to ignore forgone job creation.

The most fundamental error of such studies is to ignore forgone job creation. The mayor of D.C. did not call a wage bill a "job killer" because it would have led to layoffs but because it would have prevented creation of hundreds of new jobs.

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[17] Of course, the reason may also lie in the data and econometric model specifications used, since there are plenty of studies that do find job losses.

Over time, the minimum wage gives employers added incentive to automate, which reduces job opportunities for those with limited skills. Yet one cannot easily distinguish the advances in technology that are motivated by artificially increased wage cost from those that occur independently. Consequently, the detrimental effect of the minimum wage on employment likely is greater than what can be definitively attributed to it.

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