Effects to Businesses, Consumers and the Labor Force Concerning the Minimum Wage Increase

The Minimum Wage issue will have its greatest impact on the labor market for teenagers. These wages are low because teenagers are among the least skilled and the least experience members of the work force.

In addition these are entry level jobs that teenagers are willing to accept a lower wage; it is on the job training. This is the time when a young person first learns about responsibility, accountability, working with people and learning what it takes to be a member of the work force. This is the reason a starting wage is so important. You can't reward someone for just working, they must earn and prove they are worthy for wage increases and promotions.

Economist Milton Friedman observed; "The real tragedy of Minimum Wage laws is that they are supported by well-meaning groups who want to reduce poverty. But, the people who are hurt most by a higher Minimum Wage are the most poverty stricken" "The basic theory of competitive labor markets predicts that a Minimum Wage imposed above the **market wage rate** will reduce employment drastically"

Evidence of employment loss has been found since the earliest implementation of the Minimum Wage. The US Department of Labor's own assessment of the first .25 cent per hour raise to the Minimum Wage in 1938 found that it resulted in job losses for 30,000 to 50,000 workers, or 10% to 13% of the 300,000 covered workers who previously earned below the **New Minimum Wage.**

Across the USA the greatest adverse impact that the Minimum Wage had effect on is the poorer and lower wage regions. In those regions more workers and businesses are affected by the Mandated Wage and businesses have to take more dramatic steps to adjust to the higher costs.

An Example: The original 1938 imposition of the Minimum Wage, the lower-income US Territory of Puerto Rico was severally affected when an estimated 120,000 workers lost their jobs within the first year of the .25 cent per hour raise. Result: The islands unemployment rate soared to 50%

Similar damaging effects were observed on American Samoa from Minimum Wage increases imposed between 2007 and 2009. The effects were so pronounced on the island economy that President Obama signed into law a bill postponing the Minimum Wage increase for 2010 and 2011. Concerned over the scheduled 2012 increase of .50 cents per hour compelled Governor Togrola Tulafono to testify before Congress; "We are watching our economy burn down, we have no way to stop it. We need an aggressive wage cost decreed by the Federal Government to get it under control" "Our job market is being destroyed and our businesses are being devastated. Our hope for growth in our economy has totally been driven away"

In 1977 a review of economic literature amassed by the Commission of Charles Brown, Curtis Gilroy and Andrew Kohen found that the "Time-serious studies found that a 10% increase in the Minimum Wage reduces teen employment by 3% - 5%.

Nearly 2/3 of the studies done by David Neumark and William Wascher in 2006 found relatively consistent indication of negative effect of Minimum Wages. 85% of the most credible studies point to negative employment effects, and the studies that focused on the least-skilled groups were the ones that were the most adversely affected by Minimum Wage increases.

The evidence for the loss of employment effects was especially strong. There are very few, if any studies provide convincing evidence of positive employment effects of increasing the Minimum Wage. There are a few studies that often use a monopsony model to explain positive effects. But, as noted the vast majority of economist's think such positive effects are special cases and not generally applicable because few low wage employers are big enough to face an upward-sloping labor supply curve as the monopsony model assumes.

Empirical studies have documented the effects by which businesses and markets adjust to minimum wage increases. The Congressional Joint Economic Committee published a major review of 50 years of academic research on the Minimum Wage in 1995. The study found a wide range of direct and indirect effects of increased Minimum Wage may occur:

- Increasing the likelihood and duration of unemployment for low-wage workers, particularly during economic down turns
- Encouraging employers to cut worker training
- High increase of job turn over
- Discouraging part-time work and reducing their number of workers
- Driving workers into uncovered jobs (Under the table), thus reducing wages in these sectors
- Encouraging employers to cut back on fringe benefits
- Encouraging employers to install labor-saving devices (Kiosks, robots, etc.)
- Increasing inflationary pressure
- Increasing teenage crime rates as a result of higher unemployment rates
- Encouraging employers and business owners to hire illegal aliens
- Negative job growth

A 2011 study by Barry Hirsch found even further methods of business adjustment:

- Offset increases in the Minimum Wage by awarding productive employees smaller than normal pay increases
- Increase work productivity by requiring better attendance
- Insisting that job duties are completed faster
- Imposing additional tasks on workers because of being short staffed
- Minimizing hours worked per week
- Terminating poor performs more quickly as they can't afford their low productivity

Employers affect -

- Increasing Minimum Wages will result in pushing forward the additional costs to their consumers

Proposals to increase Minimum Wages can be politically popular because they are viewed as being a way of helping the poor. However, evidence from a large number of academic studies suggests that minimum wage increases don't reduce poverty levels at all.

- Many poor Americans (63.5%) do not work, thus they aren't earning wages.

- Even among the working poor, the relationship between earning a low hourly wage rate and living in poverty is weak and has become weaker over time. This is because most workers who gain from a minimum wage increase live in non-poor families and most of the working poor already have above required Minimum Wages.
- While an increase in the Minimum Wage will lift some families out of poverty, other low-skilled workers may lose their jobs, which reduces their income and drops their families into poverty.
- If a Minimum Wage is partly or fully passed through to consumers in the form of higher prices it will hurt the poor because they disproportionally suffer from price inflation.

In the US Economy –

- Low wages are usually paid to entry level workers, but those workers statically do not earn these wages for an extended period of time.
- Research indicates that 2/3 of Minimum Wage workers move above that wage within one year.
- For full time Minimum Wage workers research has found that the median first year raise is 14%
- While they are often low-paid entry level jobs virtually for young and lower-skilled workers because they allow people to establish a track record, to learn skills and to advance over time to a better paying job
- In trying to fix a perceived problem with Minimum Wage laws policy makers cause collateral damage by reducing the number of entry level jobs
- 70 years of empirical research finds that the higher the Minimum Wage increase is relative to the competitive wage level, the greater the loss in employment opportunities. A decision to increase the Minimum Wage is NOT COST FREE; someone HAS TO PAY FOR IT. The research shows that the low-skilled youth pay for it by losing either their job or an opportunity to get a job, while consumers also pay for it with higher prices.

Moreover, evidence from a large number of academic studies shows that, even if there were no negative employment or other affects, Minimum Wage increases DO NOT REDUCE POVERTY LEVELS. Only 11.3% of the workers who would gain from a recent proposal to increase Minimum Wage live in poor households.

The current proposal at the County Level (and not at the State Level) to raise the Minimum Wage could not have come at a worse time. Wages across the entire US work force market are stagnant. Worker's Bonus's and Wage Increases are at an all-time low. To propose a 64% increase in the Minimum Wage is totally unjustified and carries no merit. The current unemployment rate for teenagers is 25.4%. For the minority youth the situation is much worse at 38.2%, and the employment rate for those who are working is just 15.5%.
In these tough economic conditions employers are simply not going to hire workers at $10.50 per hour to an employee whose hourly efforts bring them $8.00 per hour. A higher Minimum Wage will push even more low-skilled individuals out of a job. The unemployment figure given out by our government has no merit. There are 93 Million Americans out of work. The figures given out by the government each month DO NOT include all the people who have given up looking for employment. There number of 5.4% unemployment is not even close. It is somewhere in double digits and could be as high as 20%

Rather than pursuing policies such as Minimum Wage increases that create winners and losers, policy makers should focus on policies that generate faster economic growth that will benefit our entire work force.
The (GDP) has been growing at a pathetic 1% to barely 3% each year for almost the entire time the Obama administration has been in office.
Under Ronald Reagan's Administration the recession recovery grew the (GDP) at a rate of 7% to 9% each year and the unemployment rates stayed level at about 4.5%.

While Minimum Wages attempt to help workers, economic research clearly shows that somebody MUST PAY THE PRICE for any increase and it is usually the least skilled and less fortunate among us that are afforded that burden. In January 2017 the Affordable Care Act (Obama Care) Employer Mandate will be put into effect. If this is not repealed it will be the end of all small business as we know it.

In the Global Economy (Where the US already fails miserably)

- There is less likely for international traded goods because domestic producers facing higher labor costs will be undercut by imports
- Price effects may be more prevalent in goods and services less subject to competition from imports (We cannot compete)

The research for this report was found in:

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- Joint Economic Committee, "50 Years of Research on the Minimum Wage"
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- William Even and David Macpherson, "Raising Above the Minimum Wage"
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- The Cato Institute
- NFIB – (National Federation of Independent Business)