How to Increase Unemployment: the Minimum Wage

By Jim Cox

Legislation currently moving through the halls of Congress includes the Bush Administration's economic stimulus package to revive the weakened economy. The plan calls for early implementation of the scheduled income tax cuts, a reduction in the capital gains tax, accelerated depreciation schedules for business assets, and reductions in Social Security payroll taxes for low income earners. All of this is for the good in lessening the government's predations on working Americans. The productive efforts of jobholders as well as the efforts of savers and investors are what make a strong economy.

However, a quid pro quo compromise being discussed for such sorely needed tax reductions is an increase in the nation's minimum wage rate. Many in Congress regard an increase in the minimum wage rate as a benefit for low-skilled workers to match the benefits given to investors by a capital gains tax cut.

This is a fallacy. A minimum wage increase is emphatically not a benefit to low-skilled workers. It is actually a threat not only to their jobs, but to their future capacity to earn a decent living. Mandated higher wages price people out of jobs for which they would otherwise be considered. Just as an employee will only accept a job at a wage high enough to compensate him for his time, a business will only hire an employee at a wage that allows the business to profit. At higher wages fewer jobs will be offered. Obviously, it’s not mainstream middle-class, older, skilled workers who lose jobs due to the minimum wage law, but marginal, entry level, beginning low-skilled workers who do. Today, the overall rate of unemployment is 4.9 percent, but the rate for teenagers is 14.7 percent, and for Black teenagers 27.7 percent. The members of Congress are threatening low-skilled, young minorities with additional job losses while incredibly claiming that their actions are based upon compassion for the poor. It is their actions that in fact make people poor!

Additional harm is imposed on these low-skilled workers because most employees make wage gains on the job not due to formal training, but from working and proving themselves to their employers. Unfortunately for low-skilled workers whose labor is not valued at a legally required minimum wage, there is no job from which to gain experience. Low-skilled workers
need to be able to start at a wage that matches their skill level so that they can make gains on the job in the same way that higher-skilled workers do.

Anyone doubting this analysis should question why Congress does not double or triple the minimum wage if it is truly a way to fight poverty and provide a livable wage for the low-skilled. The reason Congress will never seek an increase of this magnitude is because they in fact do realize that at higher wages, jobs are destroyed. If an increase in the minimum wage to $12.00 per hour was announced on national television, it would initially be very appealing to those earning less than $12.00. However, since at least 30 percent of American workers produce less than $12.00 worth of goods or services per hour on the job, this dramatic increase would mean that they would report to work the next day only to find themselves out of work. Once labor started to cost $12.00 per hour, employers would find ways to get the work done with fewer employees or would eliminate certain tasks altogether. The workers who produced less than $12.00 per hour in value for their employer, would find themselves unemployed despite the fact that they might be willing to work for less, and despite the fact that their employers might be willing to employ them for less. This vast number of workers would realize right away why they were suddenly unemployed and there would be political consequences for the lawmakers who had supported the increase.

Raising the minimum wage is a sucker punch to the low-skilled, and is nothing more than a public relations ploy perpetrated by politicians who are willing to manipulate and harm others if they perceive a benefit to their own narrow self-interests.

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