

NATIONAL DEBT

THE MINIMUM WAGE

Politicians created the minimum wage in the wake of the Great Depression, arguing that compensation below a certain level is exploitative and inadequate to support a family. In 1938, the Fair Labor Standards Act instituted a federal minimum wage at \$0.25 per hour. Since then, Congress has raised the minimum wage multiple times, adopting the current \$7.25 per hour rate in 2009. State governments may pass legislation to raise the minimum wage even higher within their state, but they are not allowed to set the rate below the federal level. Unfortunately, this well-intentioned effort has had severe unintended consequences, hurting the unemployed and the very same young and low-skilled workers it is intended to help.

QUICK FACTS

- Labor Statistics reported an unemployment rate of 16 percent for 16-19 year-olds; nearly triple the rate of unemployment for the general population (2).

THE MINIMUM WAGE AND LABOR SHORTAGES

In the absence of a minimum wage, employers and workers are able to freely negotiate and come to mutual agreement on a contract with employers paying a wage in return for the worker's labor. In a free market both parties must voluntarily agree to the terms of the contract, and the transaction will occur only if both believe the arrangement will leave them better off. No worker would agree to work for less than what they believe is acceptable compensation, and no business would agree to pay more for labor than what it is worth to their operation.

However, minimum wage laws dictate to employers and workers that their agreed upon wage isn't high enough, invalidating otherwise mutually beneficial employment opportunities. Similarly, the minimum wage raises the cost of labor for businesses, leaving employers with a difficult choice when their budgets are limited: stop hiring new workers, cut hours or benefits for current employees, or start laying off existing employees all together.

This can have a devastating impact on the economy, and it hits those who are currently unemployed and looking for a job particularly hard. Congressman Jim Saxton reported in 1996 that raising the minimum wage just \$0.90 cost the American economy hundreds of thousands of jobs. The last minimum wage increase in July 2009 raised the inflation-adjusted minimum wage by 36 percent. A 2014 study by the Congressional Budget Office found that increasing the minimum to \$10.10 would cost the economy 500,000 jobs and an increase to \$9.00 would cost 100,000.

FORCED WAGES DEPRESS FREEDOM AND UPWARD MOBILITY

In addition to the increasing unemployment, the minimum wage also affects other aspects of the labor market. A 2004 University of Wisconsin study confirmed that firms not only chose to stop hiring new employees and cut back existing jobs, but also cut employees' hours as a way to save money. The study also found that low-job workers, those with wages closest to the minimum wage, were hit the hardest. This creates a catch-22: workers have a hard time finding entry-level positions because they lack access to critical experience that boosts their appeal to employers, but the minimum wage makes it more expensive for employers to hire these workers into jobs that provide the kind of critical job experience they need (1).

One of the most striking statistics associated with hikes in the minimum wage is the youth unemployment rate. In the wake of higher minimum wages in the past few years, youth unemployment skyrocketed above the national average. As of March 2014, the Bureau of Labor Statistics reported an unemployment rate of 16 percent for 16-19 year-olds; nearly triple the rate of unemployment for the general population (2). Young Americans looking to jumpstart their career lack opportunities when businesses cannot afford to pay mandated higher wages.

CONCLUSION

The history of minimum wage laws in the United States tells the story of a failed government intervention into the economy. Minimum wage laws have the unintended consequence of increasing unemployment and reducing opportunities for young and low-skilled job seekers. Despite these discouraging outcomes, politicians have continued to press for a higher minimum wage. For too long, this has hindered Americans in their quest for prosperity. Instead of creating more labor market barriers, policymakers should let individuals and businesses freely decide what wage levels are appropriate.

Endnotes:

1. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44995-MinimumWage.pdf>
2. BLS unemployment stats <http://www.bls.gov/web/empsit/cpseea10.htm>

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