

December 21, 2016

## Minimum wage has pernicious effects

By Cliff Slater

The most misunderstood government policy is that of minimum wage. I am not going to get into the minimum amount that hard-working people should be paid. I argue only that employers should not be the ones to pay it. When we force business people to pay a minimum wage, it results in unforeseen consequences that are harmful to the economy as a whole and, in particular, to those whose labor is not worth the minimum wage.

We must remember that there are workers today who occupy every rung of the wage ladder, from the minimum wage up to \$100 an hour. Each one of those employees is paid what their labor is worth to their employer. There are many who start at the minimum wage because of their lack of education and work experience and have worked their way up to very high pay rates because of their aptitude and drive.

The value of their labor at any particular point in time will be a function of their education, skills, experience, aptitude, drive, language and familiarity with American business customs.

Think of a recently arrived Congolese refugee laborer who speaks no English and is not well educated. Think of the language difficulties alone for a potential employer. Or think of a Hawaii high school dropout with an attitude and no work experience.

These are examples of potential employees whose labor is not presently worth even the current minimum wage. It is why the unemployment rate for Hawaii teenagers is 30 percent.

Our Congolese laborer and our teenager with an attitude are not destined to always be unemployed. All they need is a job — at any wage — where they can learn the necessary language and behavior skills, learn math on the job, and gradually climb the wage ladder to become a valuable employee worth far more than the minimum wage.

The British government recognizes this and pegs the minimum wage for teenagers at half that of the adult minimum wage.

Now think of the other pernicious effects of the minimum wage.

Imagine you own a slightly profitable restaurant in Seattle, with your employees earning slightly more than the current minimum wage. Then suddenly the minimum wage is raised to \$15 an hour; what do you do?

You scramble.

Over time you look to having some of your food preparation done outside of the city and brought in. Instead of your employees cleaning the restaurant each night, you hire a company outside of the city, where wages are lower, to clean it. You look to mechanize and automate whatever you can; the restaurant software you could not economically justify before is now worth it as is some expensive restaurant equipment. For the remaining jobs

you look to hire fewer but harder working and more skillful employees at the new \$15 rate that you could not justify before but can now. And, of course, you raise prices as will all your competitors.

The net result is that you have eliminated many jobs and you have lost some customers because of higher prices. Now you are only breaking even — but you survive.

All this would not be necessary if we only understood that small businesses are not welfare agencies. Small businesses employ half of the nation's workers and many are barely profitable. They cannot justify hiring someone who cannot be profitably employed.

If the voters want a \$15 minimum wage they should be prepared to approve subsidizing such minimum wages out of taxes. Employers could then afford to hire the Congolese laborer and our teenager with attitude, and the high unemployment rates for such people could be eliminated.

---

*Cliff Slater is a retired businessman in Hawaii.*

**Explanatory notes:**

For high Hawaii teenage unemployment rates see: <http://www.governing.com/gov-data/economy-finance/youth-employment-unemployment-rate-data-by-state.html>

For details of the UK's variable minimum wage requirements see: <http://www.minimum-wage.co.uk/>

For Seattle's recent job losses see: <http://www.forbes.com/sites/timworstall/2016/02/19/seattles-15-minimum-wage-jobs-down-unemployment-up-this-isnt-working-is-it/#6d332b3e3712>

For confirmation of small business employment see: [https://www.sba.gov/sites/default/files/files/UnitedStates13\(1\).pdf](https://www.sba.gov/sites/default/files/files/UnitedStates13(1).pdf)