



**BRIEF ANALYSIS**

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## The Minimum Wage Is Bad Policy

by Bruce Bartlett

The concept of a minimum wage seems straightforward: If we believe the wages of some workers are too low, we should pass a law requiring those wages to be higher. What could be simpler? The problem is that increasing the minimum wage may make some people better off, but others will be harmed. Experience proves that the minimum wage hurts more people than it helps.

A bill to raise minimum hourly pay is introduced in every Congress. The current proposal would immediately raise the federal minimum wage from \$5.15 to \$5.85, then to \$6.45 one year later and to \$7.00 after two years.

**Who Are Minimum Wage Workers?** Age and education are the two most basic determinants of

the wage a worker can command in the employment market. Young people generally have less experience and maturity, and are usually not productive enough to demand a very high wage. According to the Bureau of Labor Statistics (BLS), the bulk of minimum wage workers are under 25, with limited education:

- In 2002, half of all workers earning the minimum wage were under age 25 and one-fourth were between the ages of 16 and 19.
- One-third of all minimum wage workers had less than a high school diploma.
- Three-fifths of minimum wage employees worked only part-time, and many were students or others living in homes with high family incomes.

Workers earning little more than the minimum wage are a relatively small subset of the total workforce. Assuming that business owners are not otherwise affected by increased labor costs and maintain the same number of workers and number of hours worked, the Employment Policy Foundation predicts that:

- Increasing the minimum wage to \$5.90 would cover 1.7 million hourly workers, 37.2 percent of whom are 16-to-19-year-old teenagers.

- Increasing it to \$6.65 would raise wage rates for another 4.1 million workers, for a total of 5.8 million.

- Altogether, from 53.6 to 57.4 percent of workers covered by increases from \$5.15 up to \$6.65 would be under age 25.

It is important to remember these numbers do not account for job losses that may occur due to minimum wage increases.

**Why Are Minimum Wage Jobs Important?** Minimum wage jobs are not insignificant. They are the first rung on the employment ladder

for most workers. The experience workers gain in such simple skills as showing up on time, learning to follow instructions and how to interact with customers are critical to success in life.

That is why — absent government mandated hikes — salaries grow rapidly for newly hired minimum wage workers who stick with their jobs:

- About 90 percent of workers hired at minimum wage earn more than the minimum after one year, according to the BLS.
- Average annual wage growth for minimum wage workers is six times greater than for workers earning more, according to a new study from the Employment Policies Institute (EPI). [See the figure.]

### Real Wage Growth of Workers Earning the Minimum Wage at the Beginning of the Year



Sources: William E. Even and David A. Macpherson, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004.

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However, the Small Business Administration reports that small business employers tend to raise the pay of low-wage workers more slowly following minimum wage increases.

**Who Are Minimum Wage Employers?** Minimum wage advocates imply that mostly large, successful firms employ low-wage workers. Therefore, the only effect of a higher minimum wage will be to reduce business profits. However, the SBA recently examined the types of businesses employing low-wage workers. Not surprisingly, the bulk of them are small businesses, not big corporations. Among all minimum wage workers, 54 percent work in businesses with fewer than 100 employees and two-thirds work in businesses with fewer than 500 employees.

Working in a small business can be precarious because many are perpetually underfinanced and just a short step away from bankruptcy. According to the SBA, in 1998, 590,000 new businesses were established in the United States. Of these, 565,000 employed fewer than 20 workers. But there were also 541,000 firms that went out of business that year and 512,000 of them had 20 workers or less.

Small businesses are a critical stepping-stone into the labor force for most workers. Workers who are young, poor, undereducated or minorities are most likely to find jobs in small companies. According to the BLS, someone with less than a high school diploma is almost twice as likely to work in a small business than a large one.

Small businesses create 75 percent of new jobs annually but they are also responsible for most job losses. That is why we must be especially careful when contemplating new financial burdens on small businesses. With so many of them so close to the edge to begin with, it often doesn't take much to push them over, destroying many jobs in the process.

**How Do Minimum Wage Increases Affect Minority Groups?** From 1948 to 1955, unemployment of black and white teenage males was essentially the same, 11.3

percent and 11.6 percent, respectively. However, after the minimum wage was raised from 75 cents to \$1 in 1956, unemployment rose significantly for both black and white teenage males, with blacks bearing more of the burden. By 1969, the unemployment rate was 22.7 percent for black teenage males and 14.6 percent for white teenage males.

Economists Donald Deere, Kevin Murphy and Finis Welch found that minimum wage increases totaling 27 percent in 1990 and 1991 reduced employment for all teenagers by 7.3 percent and for black teenagers by 10 percent. A study of the 1996 and 1997 increases by economists Richard Burkhauser, Kenneth Couch and David Wittenburg also found a 2 to 6 percent decline in employment for each 10 percent increase in the minimum wage.

In a study published by the Federal Reserve Bank of San Francisco, Couch translated these conclusions into raw numbers:

- At the low end, he estimated at least 90,000 teenage jobs were lost in 1996 and another 63,000 in 1997.
- At the high end, job losses may have equaled 268,000 in 1996 and 189,000 in 1997.

Couch estimates that a \$1 rise in the minimum wage today would further reduce teenage employment by at least 145,000 and possibly as many as 436,000 jobs. According to the SBA, even among large firms the probability of a low-wage worker losing his job doubles after a minimum wage hike.

**Conclusion.** Advocates of a minimum wage hike ignore the evidence that it increases unemployment among the least productive workers: unskilled teenagers whose employment opportunities are limited. This is unfortunate, because low wage jobs are the first rung on the economic ladder of success for workers entering the labor force. When we cut off the bottom rung by increasing the minimum wage, we keep youngsters from making the transition to work.

*Bruce Bartlett is a senior fellow with the National Center for Policy Analysis.*

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