

The minimum wage is compulsory unemployment

By Cliff Slater, published in Hawaii Reporter, September 16, 2013.

The minimum wage hurts the people most in need of help. For the most part, we are talking about low-performing teenagers — those least skilled, educated, and/or motivated.

Here's why it harms them.

Most adult workers today earn anywhere from the \$7.25 an hour minimum wage up to, say, \$40 an hour. Whatever workers earn in private competitive companies, from the lowest paid to the highest, it is because they are worth it. Their employers can provide the goods or services to their customers that these folks produce at prices that cover their labor costs and add to the company's earnings.

If a teenager's labor is worth less than \$7.25 an hour then private non-charitable employers will not be able to cover their costs and so will not be able to hire them.

Would it not be better for the unskilled and unmotivated to work for whatever they are worth and then develop the skills that would make them worth more than the minimum wage?

Or is there someone who thinks there are benefits to Hawaii of having today's 23 percent of our young people unemployed?

Anyone who has hired teenagers knows that, in general, the lower value of their labor is because they have to learn the disciplines they did not absorb at home. They must learn to get to work on time, to understand why their absence makes life difficult for their fellow workers, and, in time, they get to understand and take some pride in being an integral part of producing their company's goods or services. And seeing that those of their fellow workers who are more educated are making more money induces many to go back to school part-time.

Such work experience can lead to a disciplined, more skilled, more educated and thus more valuable worker. Isn't it better that this process takes place rather than they are unemployed?

Here is just one example of a more sensible approach to teenage employment that mitigates some of the negative impacts of the minimum wage.

In the UK the minimum wage is on a sliding scale for young people. It is 60 percent of the general minimum wage for those under 18, and 80 percent for 18-20 years-olds. It is 40 percent of the minimum wage for apprentices, with the government paying \$2,250 per apprentice to encourage employers to hire them.

Minimum wage legislation absurdly presumes that employers can somehow be forced to pay someone more than what they can produce. This should be recognized for the nonsense that it is. Small independent businesses have a tough enough time making money as it is; expecting them to carry the load for what is rightfully government welfare is wishful thinking.

Cliff Slater is a Hawaii businessperson who provides sources for his articles at www.cliffslater.com

Endnotes:

National Bureau of Economics Research paper:

David Neumark & Olena Nizalova. *Minimum wage effects in the longer run*. 2004.
<http://www.nber.org/papers/w10656>

“Looking at the outcomes, for 16-19 year-olds employment is lower in the states with high minimum wages, and wages are higher, consistent with minimum wages raising wages and lowering employment contemporaneously.” p. 7.

“The evidence indicates that as individuals reach their late 20's, they earn less and may also work less the longer they were exposed to a higher minimum wage as a teen and young adult.” P. 24

“In our view, this evidence indicates that it is important to focus on more than simply the contemporaneous effects of minimum wages on the youngest individuals, as this narrow and short-run focus may lead us to miss adverse minimum wage effects that are manifested in the longer run.” P. 25.

The UK Minimum Wage details:

<https://www.gov.uk/national-minimum-wage-rates>

The UK government also pays \$4,500 to employers to take on apprentices. Half paid up front and half on completion of the apprenticeship.

<http://www.apprenticeships.org.uk/Employers/Steps-to-make-it-happen/Incentive.aspx>

Other papers

David Neumark and William Wascher. *Minimum wages, labor market institutions, and youth unemployment: A cross-national analysis*. March 2003

“The average minimum wage effects we estimate using this sample are consistent with the view that minimum wages cause employment losses among youths.”

<http://www.federalreserve.gov/pubs/feds/2003/200323/200323pap.pdf>

David Neumark, UCI, NBER, and IZA, J.M. Ian Salas UCI, William Wascher - Board of Governors of the Federal Reserve System. *Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?* September 2012.

“We conclude that the evidence still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others” Abstract.

http://www.econ.ucsb.edu/~pjkuhn/Ec250A/Readings/Neumark_etal_Bathwater.pdf