



Minimum Wage Hike Would Hurt Business and Labor

July 10, 2014

By Dick Clark

Nebraska voters will likely be asked to weigh in on the minimum wage this coming November.[\[1\]](#) If petitions submitted on July 3 are verified to have met constitutional requirements, voters will be presented with the question of whether or not to increase the state's minimum wage from \$7.25, the current federal minimum wage, to \$8.00 in 2015 and then to \$9.00 at the beginning of 2016.[\[2\]](#) In order to reach the ballot, petitions must be determined by election officials to contain valid signatures totalling 7 percent of registered voters in the state comprising at least 5 percent of the registered voters in 38 of Nebraska's counties.[\[3\]](#)

Minimum wage laws first emerged in the late nineteenth century on the other side of the globe, in Australia and New Zealand. The proposal to enact a minimum wage had emerged as part of a list of concessions demanded by gold miners in the Eureka Rebellion in Victoria, Australia in 1856. The demand for a government price floor on wages first became law in these South Pacific countries in 1894.[\[4\]](#) A number of states in the US passed minimum wage laws during the Progressive Era, but courts consistently ruled them unconstitutional. They first entered the national scene during the Great Depression as part of expansive price-fixing powers granted to the National Recovery Administration. The NRA was created by the National Industrial Recovery Act of 1933 (NIRA), part of Roosevelt's New Deal.[\[5\]](#) After NIRA was ruled unconstitutional by the Supreme Court in 1935,[\[6\]](#) Congress enacted the Fair Labor Standards Act in 1938, legislation which included authorization for a new federal minimum wage.[\[7\]](#) Unlike the previous federal legislation, the FLSA survived a court challenge and was determined to be constitutional in 1941.[\[8\]](#)

At first blush, the economics of the minimum wage are elementary: as prices go up, demand curves tend to slope downwards. An increase in the minimum wage permitted by law will tend to reduce the demand for labor, exacerbating unemployment by pricing the least-valued laborers out of the job market. When business inputs cost more, entrepreneurs seek substitutes or are forced to adjust prices to compensate, passing along the increased costs to consumers.

Despite this almost definitional analysis of the impact of price controls on labor, proponents tout the minimum wage as facilitating “an economy that works for everyone.”[\[9\]](#) They claim that elevating the minimum wage will broadly increase personal income and consumer spending. They also forecast reduced dependence on government welfare benefits and benefits to the general economy.[\[10\]](#)

Contrary to the hopes of minimum wage advocates, a sizable majority of economic studies show that the laws have negative employment effects.[\[11\]](#) A survey of economics literature revealed virtually no published research indicating that minimum wage laws have a positive effect on employment. The same review found that studies focusing on the impact of minimum wage laws on the most vulnerable segments of the workforce present “overwhelming evidence” that minimum wage hikes result in serious disemployment effects for laborers with the least valuable skills.[\[12\]](#) A study examining transborder labor effects in New Jersey and Pennsylvania found “consistent evidence that employment of ‘at-risk’ groups was negatively affected.”[\[13\]](#) Even in instances where employment growth continued after minimum wage increases, the growth is likely attributable to pre-existing trends rather than the legal wage increase, with the data suggesting that overall growth, though still positive, was substantially diminished.[\[14\]](#)

Policymakers and members of the public should consider the impact of minimum wage increases on workforce development. Though supporters tout the boost in average wages subsequent to state minimum wage hikes in California and Washington as success stories weighing in favor of their proposal, the aggregate wage statistics do not actually demonstrate that wage controls have the effect of increasing wages. While growing technology sectors in those states improved prevailing wages, the workforce segment most impacted by minimum wage — young people — suffers from shockingly high unemployment as a result. In Nebraska, only 13.5 percent of workers between the ages of 16 and 19 are unable to find work. In California, youth unemployment is at 34.6 percent, and in Washington it is 28.6 percent.[\[15\]](#)

The long-term ramifications of delaying the careers of multitudes of young people are impossible to calculate with any certainty. The longer they must wait to start working, the longer it will be until they accumulate needed experience and attain a level of work productivity enabling them to support themselves and their future families. As youth unemployment rises, more young people are waiting to start families,[\[16\]](#) and many so-called “boomerang kids” are finding independent living unaffordable altogether and returning home to live with their parents.[\[17\]](#)

Workforce development is critically important to Nebraska, which is confronting demographic challenges relating to out-migration and an aging workforce.[\[18\]](#) As the minimum wage discussion continues, Nebraskans should be mindful of the benefits of a competitive labor market. Raising the minimum wage would hurt workers first, but it would ultimately mean higher prices for consumers, less competitive exports, and lower economic productivity statewide. In contrast, policies that promote the development of a more productive workforce will naturally grow wages without simultaneously exacerbating unemployment. Wages are on the rise in the Midwest.[\[19\]](#) Nebraska should be careful not to disrupt that welcome trend.

[1] Stoddard, Martha. "Petition drive to raise Nebraska's minimum wage has more than 130,000 signatures." *Omaha World-Herald*. July 4, 2014. [URL: http://www.omaha.com/news/metro/petition-drive-to-raise-nebraska-s-minimum-wage-has-more/article_d7093fe8-02f0-11e4-9596-0017a43b2370.html]

[2] *Ibid.*

[3] "How to Use the Initiative and Referendum Process in Nebraska." Nebraska Secretary of State. June 2013. [URL: <http://www.sos.ne.gov/elec/2014/pdf/State-Initiative-and-Referendum-Packet-6-13-update.pdf>]

[4] Nystrom, Scott. Presentation: "The Macroeconomic Impact of Changing the Minimum Wage." Regional Economic Models (REMI). 2014.

[5] *Ibid.*

[6] *A.L.A. Schechter Poultry Corp. v. United States*, 295 U.S. 495 (1935).

[7] Nystrom 2014.

[8] *United States v. Darby Lumber Co.*, 312 U.S. 100 (1941).

[9] Stoddard.

[10] *Ibid.*

[11] Neumark, David and William Wascher. "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research." Working Paper 12663. National Bureau of Economic Research. November 2006. [URL: <http://www.nber.org/papers/w12663>]

[12] *Ibid.*

[13] Hoffman, Saul D. and Diane M. Trace. "NJ and PA Once Again: What Happened to Employment When the PA-NJ Minimum Wage Differential Disappeared?" *Eastern Economic Journal*. Winter 2009. [URL: <http://www.palgrave-journals.com/eej/journal/v35/n1/full/eej20081a.html>]

[14] Neumark and Wascher.

[15] "Youth Unemployment Rate, Figures by State." *Governing*. April 2013. [URL: <http://www.governing.com/gov-data/economy-finance/youth-unemployment-rate-data-by-state.html>]

[16] Hayes, Erin. "More Americans Waiting Longer to Marry." ABC News. June 29, 2014. [URL: <http://abcnews.go.com/WNT/story?id=130884>]

[17] Fry, Richard. "A Rising Share of Young Adults Live in Their Parents' Home: A Record 21.6 Million In 2012." Pew Research: Social & Demographic Trends. August 1, 2013. [URL: <http://www.pewsocialtrends.org/2013/08/01/a-rising-share-of-young-adults-live-in-their-parents-home/>]

[18] "State Taxation and Migration." Platte Chat. Platte Institute for Economic Research. January 15, 2014. [URL: <http://www.platteinstitute.org/research/detail/state-taxation-and-migration>]

[19] Jordon, Steve. "New jobs, rising wages in the forecast for Midwestern economy." *Omaha World-Herald*. February 3, 2014. [URL: http://www.omaha.com/money/new-jobs-rising-wages-in-the-forecast-for-midwestern-economy/article_528a3a97-615b-56d4-be26-f894dde2d7bc.html]