



Higher Minimum Wage Means Fewer Opportunities for Workers **by Michael Thomas, Ph.D.**

It is among the noblest pursuits to seek out ways to enhance the well-being of those that are least well off in society. One of the plans that has been proposed to accomplish this goal is raising the minimum wage. What could be better than increasing the lowest legal wage a worker can get paid? The best answer to that question is creating opportunities for workers to gain skills and experience. I would be the first to agree that minimum wages were good policy if I could be convinced that they increased opportunities for the least well off.

In a recent release by the Center for Economic and Policy Research (CEPR), the claim was made that job growth was faster in the states where the minimum wage was higher.¹ This is strictly true, but a closer look at their data reveals that among the seven minimum wage-hiking states with job growth of greater than 1 percent were also states which had an average peak of 10.614 percent unemployment (around 2010). This is in contrast to the other eight states and DC with greater than 1 percent growth, which averaged 9.011 percent peak unemployment.

Starting from a worse employment situation makes recent gains look better (the seven minimum wage change states currently average 6.54 percent unemployment as opposed to 5.5 percent in the other eight plus DC). Also, the conclusions in the CEPR report are heavily dependent on the start and end dates for the time period examined.² None of this causes me to doubt the fact that minimum wages lead to unemployment, despite what the report suggests. In fact, we can look at the states that do have high job growth and notice that minimum wage increases will be less disruptive there than in other places.

The employment situation in our nation is still dismal despite a falling unemployment rate. As has been pointed out about before, the Bureau of Labor Statistics (BLS) numbers from June³ upon which the CEPR relied to make their claims also include a substantial increase in the

¹ Wolcott, Ben. "2014 Job Creation Faster in States that Raised the Minimum Wage." Center for Economic and Policy Research. June 30, 2014. [URL: <http://www.cepr.net/index.php/blogs/cepr-blog/2014-job-creation-in-states-that-raised-the-minimum-wage>]

² Boudreaux, Don and Liya Palagasvili. "Obama's Misleading Minimum Wage Statistics." *US News and World Report*. July 28, 2014. [URL: <http://www.usnews.com/opinion/economic-intelligence/2014/07/28/obamas-minimum-wage-data-leads-to-a-misleading-conclusion>]

³ "News Release: Regional and State Employment and Unemployment, June 2014." Bureau of Labor Statistics. July 19, 2014. [URL: <http://www.bls.gov/news.release/laus.htm>]

share of part-time work in the economy, somewhat dampening the positive interpretation of these findings. Throughout this recovery full time jobs have been weak and part time work has accounted for many people leaving the rolls of unemployment. Unfortunately, this recovery is still weak. About 4.8 percent of workers (7.5 million people according to the BLS) looking for full-time employment have *involuntarily* accepted part-time work instead.⁴

Many of the states that have seen job growth despite raising the minimum wage are states with higher living costs where fewer people actually work for minimum wage. Seattle is a great example of this, if extreme. Famous for enacting an ordinance that would raise the minimum wage to \$11 an hour next year and ultimately to \$15 an hour by January 2017,⁵ Seattle has a very high cost of living and a skilled population earning higher than average wages. Educational attainment is high: 56 percent of people in Seattle have a bachelor's degree compared with a 28.5 percent national average for individuals aged 25 and older. Raising the minimum wage in Seattle is therefore far less intrusive than it would be in say, Omaha, Nebraska. According to CNN Money, someone who makes \$45,000 a year in Omaha would have to make \$61,353 in Seattle (36 percent more) just to have the same purchasing power.⁶

This points out an often overlooked aspect of raising minimum wages. Businesses can relocate to places with lower cost of living to take advantage of lower wages that actually go further than higher wages would go elsewhere. In places where minimum wages are higher, or if a higher national minimum wage is enacted, much of the cost advantage of places like Nebraska starts to go away.

All of these comparisons miss out on another important aspect of unemployment and its effect on the least well off. According to the statistics released by the BLS for June,⁷ minorities are still unemployed at much higher rates than the average. While average unemployment for the general population is 6.1 percent, African Americans and Latinos suffer from much higher unemployment, at 10.7 percent and 7.8 percent respectively. Teenagers have high unemployment, with 21 percent of those looking for jobs unable to find employment. People with a college degree have little difficulty getting a job — their unemployment rate is 3.3 percent — but this is 2.75 times less than the rate of those who fail to get a high school diploma (9.1 percent). The problem gets even worse if one combines these disadvantaged categories. Black men between ages 20–24 are struggling to become employed, even for entry-level jobs. According to another CEPR report from October 2013, the unemployment rate among this

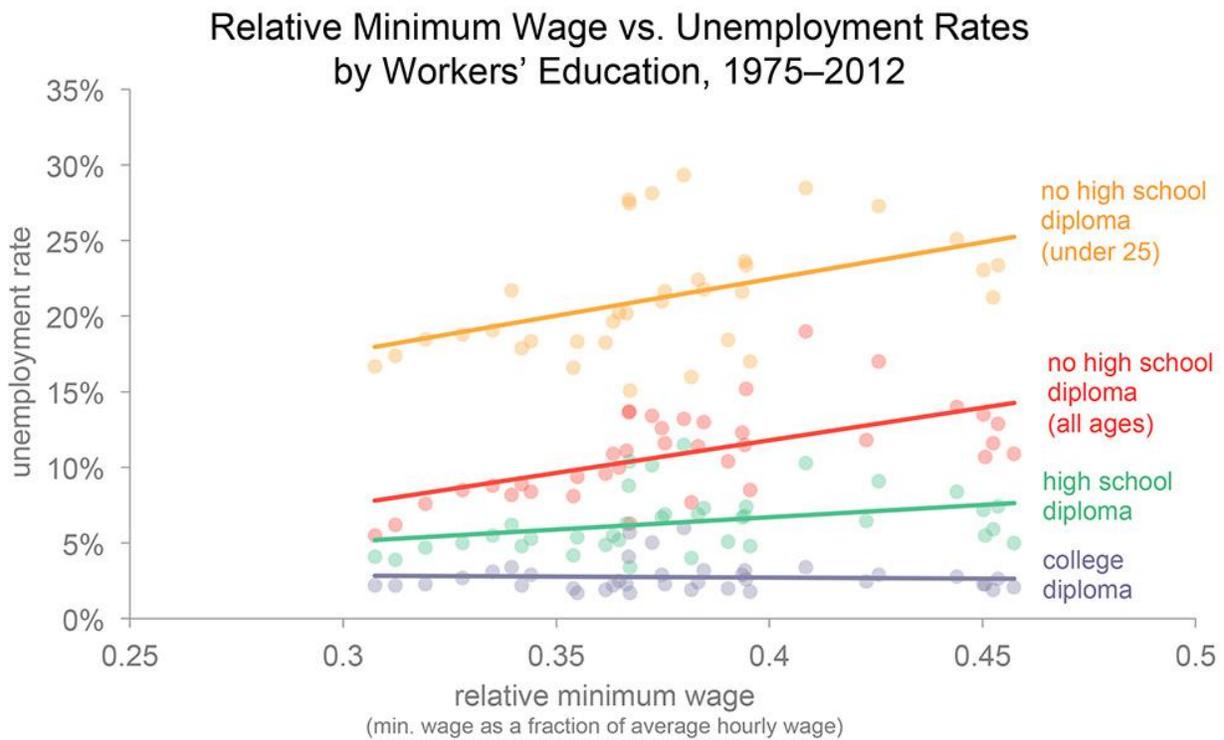
⁴ See “The Employment Situation, June 2014.” Bureau of Labor Statistics. July 3, 2014. [URL: <http://www.bls.gov/news.release/pdf/empsit.pdf>] and Short, Doug. “The Part-Time Employment Ratio: A Curious Anomaly in June.” Advisor Perspectives. July 8, 2014. [URL: <http://www.advisorperspectives.com/dshort/commentaries/Full-Time-vs-Part-Time-Employment.php>]

⁵ “\$15 Minimum Wage” Office of the Mayor. City of Seattle. 2014. [URL: <http://murray.seattle.gov/minimumwage/#sthash.TycszpPg.dpbs>]

⁶ Estimate based on CNN Money cost-of-living calculator. See “Cost of Living: How far will my salary go in another city?” CNN Money. [URL: <http://money.cnn.com/calculator/pf/cost-of-living/>]

⁷ “The Employment Situation, June 2014.” Bureau of Labor Statistics. July 3, 2014. [URL: <http://www.bls.gov/news.release/pdf/empsit.pdf>]

group was 50 percent, as opposed to white men of the same age who were 20 percent unemployed.⁸



Data note: Data for workers under 25 with no high school diploma are for 1985–2012.
Source: Bureau of Labor Statistics, Table A-4. Accessed August 25, 2013.
Produced by Antony Davies and Rizqi Rachmat, Mercatus Center at George Mason University. July 28, 2014.

Putting this information together implies that working conditions are not that bad for those who already have access to skills and education. I do not take from this, however, that minimum wage laws help the least well off, who are struggling to even get a job in the first place. It seems, rather, that the policy simply does less damage in places where few are actually paid the minimum wage. Where people need access to their first job, anything they can do to convince employers to take a chance on them should be on the table, including starting a job that pays below a living wage.

Ultimately, the problem of living wages will not be solved without first addressing the lack of skills among those entering the labor force. More skills equal more productivity. When hiring new employees, employers look for evidence that a candidate is intelligent, experienced, has

⁸ Kroeger, Teresa. "Addressing Chronic Black Male Unemployment." Center for Economic and Policy Research. October 23, 2013. [URL: <http://www.cepr.net/index.php/blogs/cepr-blog/addressing-chronic-black-male-unemployment>]

completed relevant training, and has a strong work ethic. All of these factors are interpreted as evidence of the single characteristic that ultimately matters most to employers: productivity.⁹

Workers who have productive skills are statistically less likely to be unemployed, and they are more likely to earn a wage that will support a family. We also have to address structural discrimination in the workplace, which this economist would argue is exacerbated by any barriers to entry for first jobs, including minimum wage laws. In the meantime, Nebraska policymakers and voters should leave it to places with higher costs of living to risk their future prosperity with these higher wage floors. If Seattle can seem to disprove basic textbook economics, let them demonstrate it, but the rest of us should recognize the limits to which their example can be replicated elsewhere.

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⁹ Davies, Antony. "Does the Minimum Wage Increase Worker Productivity?" Mercatus Center. George Mason University. July 28, 2014. [URL: <http://mercatus.org/publication/does-minimum-wage-increase-worker-productivity>]