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David Kreutzer: Wage mandates won't help the poor

By DAVID KREUTZER

February 14, 2008

Minnesota legislators are considering a proposal to raise and index the minimum wage. It's a great move, if your bumper has a sticker that says "Honk If You Love Unemployment."

The low-skilled, the disadvantaged and those in economically depressed areas are those most likely to lose their jobs when government tries to squeeze wage mandates into thin profit margins. One typical provider of entry-level jobs is the restaurant industry, whose average profit margin is about 5 percent and whose labor costs are about 30 percent of sales.

The proposal on the table would raise Minnesota's minimum wage by 31 percent between now and next August. Even though not all restaurant workers earn the minimum wage, the math isn't encouraging.

Study after study of actual employment data confirms that minimum-wage increases lead to job losses for those who need help, while helping those who, for the most part, don't need it.

For an example of the disadvantaged, it's hard to top single mothers who are high-school dropouts. How does the minimum wage help them? In 2007, a study by a University of Georgia economist found that a 10 percent rise in the minimum wage causes a job loss of 6 percent and a loss of full-time employment of 14.5 percent for this group.

Similar results come from the University of California at Irvine. Also in 2007, David Neumark found that young female high-school dropouts suffered an 8 percent job loss for every 10 percent increase in the minimum wage. He also found that minority teens suffer a 6.6 percent job loss for every 10 percent increase in the minimum wage. If those effects follow a 10 percent increase, imagine what could happen when the increase is three times as large.

As a weapon to raise incomes for poor families, the minimum wage is a shotgun at best -- even if there were no job losses. Only 14 percent of minimum-wage earners are the lone provider in a household with children. Few minimum-wage employees live in poverty. In fact, the average annual household income for Minnesota's minimum-wage earners is over \$52,000.

Most of the wage increase goes to the non-poor and most of the job losses go to the down-and-out. Although this may not be the intent, it is the well-documented

consequence of minimum-wage hikes.

Want to make it worse? Throw in a soft or sinking economy. A robust economy can mask or even offset the effects of wage mandates. But "robust" hardly describes the current economy.

If ever there were a time for restraint on new labor-cost increases, it is now. As the latest drop in U.S. employment statistics shows, the recent commodity price increases coupled with soft demand make it difficult for firms to keep the employees they already have. And income at current pay is better than higher pay for a job you no longer have.

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