Trump Reverses — Now Open to Minimum-wage Hike

Now that he apparently has secured the Republican Party nomination — with Texas Senator Ted Cruz and Ohio Governor John Kasich exiting the race — Donald Trump has reversed his opposition to raising the minimum wage.

Last November, during a debate with Republican opponents, Trump flatly opposed raising the minimum wage. "I hate to say it, but we have to leave it the way it is," he said then. In an appearance last fall on MSNBC's *Morning Joe* program, he was even more adamant in his opposition, asserting that the present minimum wage was slowing job growth, because it was too high.

> We have to become competitive with the world. Our taxes are too high, our wages are too high, everything is too high. What's going to happen is now people are going to start firing people.

But appearing on CNN the day after winning the Indiana primary, effectively wrapping up the nomination, Trump greatly softened his opposition to a minimum wage hike. "I'm looking at that," he said of a minimum-wage increase, explaining, "I'm very different from most Republicans."

That is certainly true. Of the 17 Republican hopefuls who started the race last fall, only former Pennsylvania Senator Rick Santorum and Doctor Ben Carson favored a minimum-wage increase. And Carson eventually recanted.

On the other hand, both Democrat hopefuls favor stiff increases in the minimum wage rate: Hillary Clinton supports a $12 federally mandated minimum wage, and Bernie Sanders wants the figure at $15. Clinton has said she would support efforts to impose a $15 minimum wage at the local level.

Trump did not specify an exact amount of wage increase he would support, and was cautious about rasing it too much. "If you start playing around too much with that lower level number, you are not going to be competitive," he asserted. But, he insisted, he is "open to doing something."

Back in the 1950s, the GOP was divided between the "Modern Republicans," such as President Dwight Eisenhower, who said they could conduct a less expensive welfare state than the Democrats, and "Traditional Republicans," such as Senator Barry Goldwater of Arizona, who dismissed Eisenhower's cheaper welfare state as a "dimestore New Deal." Me-too Republicans are still with us, over half a century later.

One can safely presume that Trump's minimum-wage level would not be as high as Clinton's $12 an hour, and certainly not the outlandish $15 proposal of Sanders. But in short, not one of the three has a principled opposition to the idea that the federal government should be setting any prices or wages.

There are clearly negative consequences of the minimum wage, which Trump hinted at, and Clinton certainly acknowledged indirectly with her lower $12 figure. Even Sanders tacitly understands this, or he would have proposed an even higher amount than $15 an hour.

First of all, if the government should be able to set a *minimum* wage, why not a *maximum* wage? After all, why should neurosurgeons make more than bus boys in restaurants? In a free enterprise situation, the supply of those who can perform highly technical surgeries is quite limited. The supply of those who can bus tables, on the other hand, is quite high. The argument usually made by advocates of raising the minimum wage is that those receiving the present minimum wage cannot support a family on it. Under this reasoning, since neurosurgeons receive far more than what is necessary to make a living, the government should cap their wages.

And there would be fewer neurosurgeons.

Why does a business owner hire anyone? The answer should be obvious. He or she believes more money can be made by adding that additional employee than by not. In a strong and growing economy, the minimum wage usually becomes irrelevant. This is because more businesses are in need of more employees to care for the increased number of customers, making them pay a higher wage for those additional employees.

In an economic downturn, however, the minimum wage forces the business owner to make some difficult choices. While he may *need* an additional worker, with business activity down, he may simply not be able to *afford* another employee. Because of the minimum wage, the business owner often decides he can make more money by laying off one employee. After all, the owner opens a business to make money for his own family, not to give someone else a job. It should be noted that a person takes a job for his own family's benefit as well, not to help the business owner make more money.

As Adam Smith observed many years ago in his famous book *Wealth of Nations*, the butcher does not prepare us our supper for *our* benefit, but for his own. However, the only way the butcher can benefit himself is by preparing us our supper.

The cold, hard reality is that if the minimum wage is higher than the market price for that worker, then the business owner has limited options. He can, of course, raise his prices to pay for the additional worker; but in a stagnant economy, this may not be feasible. Raising the price of the product might actually lead to even fewer customers and reduced income for the business. If the business owner is unable to get his customers to pay the higher wage through higher prices for the product, then he must resort to cutting staff. Whereas before, the business may have operated with seven workers, now it might have to cut back to six, or even five.

Another tactic used by business owners looking for ways to reduce their costs of doing business (and labor costs are usually the most expensive single item) is to experiment with some technology. After all, if you have a machine to take orders, you don't have to worry about it calling in sick (or just not showing up at all). If a machine is cheaper than a human being would be after an increase in the minimum wage, then a business owner who must put his own family first could very well opt to cut staff.

As the great 19th-century French classical liberal theorist, political economist, and philosopher Frédéric Bastiat observed, in an economy only some consequences of actions can be clearly seen (such as an increase in the minimum wage putting more money in the pocket of a worker who is fortunate enough to keep a job). What is not seen are those employees who are willing to work for a lower wage, but can no longer find employment because the minimum wage has priced them out of a job. The negative effects are also not seen (or at least not widely understood) when the minimum wage has actually forced a business owner to close the doors.

In cities that have pumped up the minimum wage to unrealistic levels, the negative results are clear. In Chicago, job gains in the leisure and hospitality sector have slumped to a five-year low after a new minimum-wage increase. In San Francisco, job growth also hit a five-year low after the city council mandated an increase in the minimum wage last spring. Hiring in the leisure and hospitality sector had averaged five percent a year, right up until implementation of the increase in the minimum wage. Now, it is at less than half that. In Los Angeles, job growth in the accommodation industry actually went negative after the minimum wage shot to $15.37 an hour. After growing by three percent or more over the previous three years, the industry's employment fell by an average of three percent, shedding 1,300 jobs.

The economic laws of supply and demand do not change just because some politician wills them to change. When one controls a price (or wage) below the market price, one gets a shortage; when one controls a price (or wage) above the market price, one gets a surplus. When the price of labor is held by a government edict above the market price of labor, there is higher unemployment than would otherwise be the case.

But then, politicians such as Hillary Clinton, Bernie Sanders, and Donald Trump have an election to win. They can't be bothered by the deleterious effects of their vote-seeking policies.

Update: On Sunday, May 8, two days after this article was published, Donald Trump said on Meet the Press *that "I would like to see an increase of some magnitude" in the minimum wage. "But," he added, "I'd rather leave it to the states. Let the states decide."*