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Survey: Small Business Will Lay Off Workers if Minimum Wage Hiked

Bob Funk, the entrepreneur who founded and now operates Express Employment Professionals (claimed to be the largest privately owned employment service in the country), holds that the best way to determine the impact of a proposed law is to ask those who would be directly affected by it. This method reduces confusion, avoids extended discussions among economists who have never held a real job in their working lives, and eliminates spending on empirical studies designed with the desired outcome in mind. Said Funk:

> There's been a lot of debate and speculation about the impact of a minimum wage increase on job creation. At Express, we decided to go directly to the employers who make those decisions to find out what a minimum wage increase to $10.10 an hour would mean for them specifically and [by inference] for the economy in general.

He surveyed 1,213 small business owners and human resource directors, some 230 of whom pay their employees the current minimum wage of $7.25 an hour. One in five said they would be forced to let some of their employees go, while two in five said they would reduce hiring in the future. Half said they would be forced to raise their prices to pay for the mandated increase.

When he asked just those 230 who currently pay the minimum wage, he learned that four out of 10 of them would be forced to fire some of their current workers and half would reduce future hiring. Two-thirds would be forced to raise their prices.

When establishment apologist and Keynesian economist Paul Krugman looked at the issue, he referred to various studies that showed little if any negative impact that past raises have caused:

> There just isn't any evidence that raising the minimum wage … would reduce employment.
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> And this is a really solid result, because there have been a lot of studies.
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> We can argue about exactly why the simple Econ 101 story doesn't seem to work, but it clearly doesn't.…
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> Which means that the supposed cost in terms of employment from seeking to raise low-wage workers' earnings is a myth.…
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> So a minimum wage increase … is actually good policy.

If what he says is true, what are we to make of the fact that, as pointed out by economist Thomas Sowell, when countries have no minimum wage, their unemployment rates are lower than in countries with minimum-wage rates. Switzerland doesn't have a minimum wage, and its unemployment rate ranges between two and three percent. As well, the last time the United States didn't have a minimum wage, its unemployment rate "got as low as 1.8 percent."

But Krugman may be correct — to an extent. Raising the minimum wage may not significantly raise unemployment across the board (logical since most adult workers and experienced workers already make more than the minimum wage), but study after study shows that a minimum wage does hurt low-skill people, especially minorities. In fact, when minimum wages were first instituted, one of their main goals was to cause minority unemployment. Again as Sowell points out, in Canada in 1925, a minimum wage was instituted to make it too costly for companies to hire unskilled Japanese workers to be lumberjacks. The Australian minimum wage was meant to undermine the employment of Chinese laborers, and in the United States, the Davis-Bacon Act was implemented to keep southern blacks from taking northerners' jobs.

Krugman, to bolster his point, referred his readers to another establishment economist, Mike Konczai, who then referred Krugman's readers to still another dependable source for defending a minimum-wage raise, Jared Bernstein. Bernstein, it may be remembered, is the pro-labor, progressive economist who was Vice President Joseph Biden's chief economist and economic advisor for a couple of years and now can be relied on to present the progressive economic voice at CNBC.

Bernstein looked at some studies that "proved" that there were few, if any, negative impacts of past minimum-wage increases that were mandated by governments, federal or state: "I've seen good studies find small negatives and good ones finding small positives." But, he added:

> These results don't mean that no worker ever loses her job when the minimum wage goes up. But they do mean that the vast majority gets a raise and that anyone blithely citing the classical model [i.e., when the price of something goes up, less will be demanded] is speaking from prejudice, not from the evidence.

In other words, undependable conclusions from unreliable studies override irrefutable logic, according to Bernstein.

Bernstein then responded to the challenge posed by those supporting the "classical model" — those who are against the minimum wage retort to people such as Bernstein that if $10.10 an hour is so great, why be pikers? Why not force employers to pay $15 an hour, or $50, or $90? If prosperity were that easy to achieve, just pass a law and make everyone rich. Said Bernstein, small raises only negatively impact a very small percentage of the workforce, so those negative effects can be overlooked: "[Past] increases have affected less than 10 percent of the workforce. A $90 minimum would affect about 100 percent. That's a big difference."

Of course, to those directly and immediately affected by receiving a pink slip, the impact is enormous. But, according to Bernstein, that may be forgiven when looking at the big picture. Besides, employers have other ways of mitigating the impact of having to pay more for labor:

> In the real world [where Bernstein has never worked] there is a range wherein businesses can absorb the increase through various channels other than employment, including [raising] prices, [reducing] profits, and [improving] productivity….
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> History shows … that increases [impacting] less than 10 percent of the workforce … do not generate significant disemployment effects.

Bernstein added, "Increasing the minimum wage has the intended effect of raising the earnings of low-wage workers who need the raise without harming their employment prospects."

That's the best that the best minds defending the state can come up with: Yes, there will be damage done to some poor schnook who is now out of work and can't find other work thanks to the new law, but, hey, in the grand scheme of things, who really cares? Logic doesn't matter, classical economic theory teaches us nothing, and besides it's the government's role to make things better. In true progressive fashion, Bernstein concluded:

> [Raising the minimum wage] won't transform the labor market or rebuild the middle class, but it is a vital if small part of the connective tissue that binds even our lowest wage workers to the more broadly shared prosperity that has eluded them for decades.

Classical economist Murray Rothbard responded to these canards back in 1995 in chapter 36 of his *Making Economic Sense:*

> In truth, there is only one way to regard a minimum wage law: it is compulsory unemployment, period.
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> The law says it is illegal, and therefore criminal, for anyone to hire anyone else below the level of X dollars per hour. This means, plainly and simply, that a large number of free and voluntary wage contracts are now outlawed and hence there will be a large amount of unemployment.
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> Remember that the minimum wage law provides no jobs: it only outlaws them.

Unimpeded either by experience, logic, or history, on February 12, 2014, President Obama signed an executive order mandating that all federal workers be paid $10.10 an hour, explaining:

> The opponents of the minimum wage have been using the same arguments for years, and time and again they've been proven wrong. Raising the minimum wage is good for business, and it's good for workers, and it's good for the economy. Put more money in these folks' pockets…. That means they've got some money to go shopping, which in turn means the business has more customers [applause] which means they may hire more workers and make more of a profit [applause].

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*