

Minimum-wage hikes lower workers' prospects

BY JOE SINAGRA

The minimum wage is supposed to help those at the lower end of the income scale to make a better living. When the minimum wage rises, in actuality, the exact opposite occurs, resulting in a higher unemployment rate among that same income class. The small businesses that employ them suffer, as well.

With an increase in the minimum wage, the small percentage of people who depend on the minimum hourly rate to live on will fall into a higher tax category and they may lose benefits. Study after study has found that as labor rates rise, job competition heats up, allowing employers to hire workers with better skills.

I do not believe the minimum wage increase has helped anyone — already we are seeing companies laying off workers or closing.

Minimum-wage laws affect ethnic minorities more so than other groups. The unemployment rate for white teens ages 16 and 17 was 17.3 percent in 2005. The same figures for Hispanic and black teens were 25 percent and 40.9 percent, respectively. A rule of thumb established by *The Journal of Economic Literature* is that a 10 percent increase in the minimum wage leads to roughly a 2 percent hike in teen unemployment — we just had a 40 percent increase. Is it better to have no job at \$7.25 an hour or a guaranteed job at \$5.15 an hour?

An increase in the minimum wage means that unemployment rates among ethnic minorities and teens will climb higher, giving thousands of currently employed workers a “livable” wage of zero.

Many union contracts have salary formulas tiered off of the minimum wage. As the minimum wage increases, every union salary level increases, too. The ability of unions to obtain wages above market rate is improved, as the price of competing non-union labor goes higher. Large employers who pay more than the minimum (Wal-Mart being the most recent example) also push for higher minimum

wages, making it more difficult for low-wage competitors to keep employees.

As the actual wage increases, so do payroll taxes, unemployment, disability, etc. — the “hidden” taxes. Any minimum-wage increase creates a larger burden on employers.

There has been talk of creating a livable wage anywhere from \$11 to \$16 an hour, along with bringing back jobs to New Jersey. To the contrary, mandatory minimum wage or livable wage increases will force companies to leave the state or the country.

Small businesses account for the bulk of new job growth. Mandating a higher minimum wage means that a small business will either have to let someone go or not hire the next person who walks through the door. Many small-business owners need a minimum amount of employees to compete against the larger chains. When forced to let employees go, they cannot compete. By keeping them, they either absorb costs or lose what little competitive edge they have.

When a company is forced to raise its wages, it is also forced to reduce hours or cut jobs to sustain a profit margin. Higher labor costs tend to replace marginal employees with self-service options or automation. In other words, employers will replace less-skilled employees with machines or reduce service to customers by, for example, automating their telephone receptionists, expecting fast-food diners to bus their own tables and shoppers to scan and bag their own groceries.

A business doesn't have more money available for payroll because a minimum wage is mandated. As the minimum wage increases, businesses are required to pay their workers more than what they are worth. No one would willingly pay someone \$7.25 an hour for a product or service worth \$4 an hour and still expect to stay in business. The business would have to lay off some workers to free up enough cash to

pay those still on staff. It must either make do with a staff it can afford or go out of business, putting all of its employees out of work and creating more unemployment.

In the absence of minimum-wage laws, would employers pay lower than minimum or less? No. Competition in the labor market forces employers to pay the higher wages; many businesses today pay their employees more than the minimum wage. I believe that by eliminating the minimum wage, more job opportunities for the unskilled and minorities will be created and there will be more room for negotiation between employer and employee.

For low-wage earners fortunate enough to survive losing their job, it doesn't necessarily help them, either. Employers will react to the higher wages by adjusting other areas of employee compensation, such as health insurance or other benefits.

If small-business owners must face increasing costs, then they must be allowed to form co-ops through which they can purchase low-cost health-care coverage to help offset forced government increases.

When forcing a business to pay its workers more, the money has to come from somewhere, usually in the form of increased prices for goods and services. Workers who are making more money because of a minimum-wage increase will end up spending more to buy the items they need to survive, ending right back where they started. As stated in a recent article, “Inflation has eroded the minimum wage's buying power to the lowest level in about 50 years.”

In the end, as consumer prices continue to rise, so will inflation, and the minimum wage will still be the minimum wage.

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