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Thought of the Day
“Minimum Wage Wars”
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A crescendo is building for raising the federal minimum wage by 107%, from \$7.25 an hour to \$15.00. To be against it, according to those who support such a move, is to favor inequality and unfairness – it is to show one’s Simon Legree side. The \$7.25 wage has been in place for six years; so it is understandable why this tidal wave has been developing. But its implementation will have negative consequences that are surely unintentional. Some perspective is needed.

The income gap has widened during the six years since the recession ended in mid 2009. That fact has little to do with the minimum wage and a lot to do with government policies regarding taxes, regulation and interest rates. A front-page article in Saturday’s New York Times detailed the gloomy news. While employers have added 200,000 jobs a month and the official jobless rate is at a post-recession low of 5.3%, the labor participation rate (62.6%) is at the lowest level since the Carter years. Six years into economic recovery there are fifteen million Americans on Social Security disability insurance, more than when the recession ended. Forty percent more people are on food stamps than six years ago. Work requirements, which were part of the 1996 Personal Responsibility and Work Opportunity Act, were waived in 2012 by the U.S. Department of Health and Human Services. And for the first time in the nation’s history, or at least during a time of economic recovery, more small businesses are closing than opening. And now government wants to fuel this fire by mandating a doubling of the minimum wage?

Unlike government, businesses face competition. Globalization and technology force them to adapt. In 1970, more than a quarter of U.S. employees worked in manufacturing. Today, it is less than ten percent. The slide began well before the rise of China in the 1990s. The decline in U.S. manufacturing jobs is not simply a consequence of businesses looking overseas for cheap labor. The real reason has been technology. Supporting that conclusion, a study last year by the Boston Consulting Group showed manufacturing jobs, as a percent of total employment, are declining in developing countries like Brazil, China and India.

The technology impact on manufacturing is now affecting the service industries – the segment of the economy where most of the minimum wage jobs lie. The Bureau of Labor Statistics (BLS) reported that nonfarm payrolls in the U.S. at the end of 2014 amounted to 140,592,000, with 77,207,000 (54.9%) being hourly workers. (Keep in mind, the number of Americans between the ages of 16 and 65 is about 225,000,000.) Among hourly workers, 2,992,000 (or 3.9%) were employed at the minimum wage or lower. That works out to 2.1% of all workers. (Those who work for less than minimum wage are employees who rely on tips, certain part-time workers and special-needs cases).

The BLS report noted: “The percentage of hourly workers paid wages at or below the federal minimum wage was little different among major race and ethnicity groups.” Blacks and Whites

had slightly higher percentages than Hispanic or Asian workers. Age was the biggest difference. Seventy percent of those making the minimum wage or less are between the ages of 16 and 24.

The numbers suggest that a large percentage of minimum wage jobs are the teen-age children of middle class and upper-income families. Many of the rest are starter jobs – the kind we all remember when first we went to work. Estimates are that an increase in the minimum wage to \$15 per hour will cost 500,000 jobs. I suspect it may be more.

Technology has already replaced many service-sector jobs. In some restaurants, one can order on I-Pads. Technology has replaced many secretarial jobs. The internet has made it easier to form a corporation and it has reduced the time for research. Travel agents have become an endangered species. The President has suggested that the servicing of smaller 401K and IRA accounts should be automated. Three weeks ago, when my wife was recovering from a fall, robots delivered medicines to her hospital floor. Technology will continue to replace jobs. It is one reason why STEM jobs have been the best paying for recent college graduates. David Brooks wrote recently in the New York Times: “If you raise the price on a worker, employers will hire fewer and you’ll end up hurting the people you meant to help.”

When New York Governor Andrew Cuomo signaled his support for the higher minimum wage, he disingenuously said: “You cannot live and support a family of four on \$18,000 a year in the state of New York.” (The State of New York’s minimum wage is \$8.75 per hour.) His statement was purely political, as were similar endorsements from Hillary Clinton, Bernie Sanders and Martin O’Malley. There are few families of four dependent on a sole provider making the minimum wage. Those jobs, as I wrote, are mostly held by the young – teenagers or young people starting a career. It is jobs, not raising the minimum wage that will help the poor. Raising the minimum wage will not narrow the income gap. It will cost jobs and force some businesses to close. It is not the panacea it is claimed and it detracts from the real task – job creation.

No one wants anyone to be subjected to a life of substandard compensation. But we should all want everyone to work. The problem with government establishing wages, rather than markets, is that they cannot anticipate the consequences of their action – businesses closing, technology replacing labor, or the shipping of jobs overseas.

Government should concentrate on job growth. Policies should encourage business formations and economic growth. A job brings pride and happiness. Do you remember your first job – the first time some person actually paid you for work performed? I remember mine. I was hired to drive half a dozen cows every evening from the pasture across from our house to the barn of the farmer that owned them a mile down the road. It took a little over an hour and I was paid \$.25. Interestingly, this was about thirteen years after the first minimum wage bill was passed in 1938 which set the hourly rate at \$.25. The minimum rate never played a role. I was just happy to think Mr. Nagle valued my work enough to pay me hard cash!

It is not what we get paid when first we start a job that should concern us. It is the opportunity for advancement, the knowledge we gather and the joy we get from working. Setting a minimum wage should be unnecessary. Doubling it at this point only exacerbates the employment situation.

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