

MINIMUM WAGE: Myths and Facts



Organized labor and other left-leaning organizations are once again pushing for mandatory wage increases and, as usual, the success of their campaign will depend on policymakers, the media and general public believing several well-trodden myths:

Myth: *Workers need a raise and cannot increase their wages without an increase in the minimum wage.*

Fact: Standard rhetoric from minimum wage advocates implies that, unless the government takes action, those earning the minimum wage will never experience a wage increase. In reality, minimum wage is typically a starting or training wage for employees entering the workforce who usually earn commensurate wage increases as they gain experience and skills. Overall, the number of minimum wage earners has generally declined as the size of the workforce has increased and the age of minimum wage earners is getting younger. These facts indicate that people usually do not get “stuck” in minimum wage, but rather transition upward in the workforce.

Myth: *Those earning the minimum wage generally work for large national corporations who are sitting on billions of dollars and can afford to pay their workers more.*

Fact: The vast majority of minimum wage earners do not work for large corporations. In fact, according to data from the U.S. Census Bureau, the majority of the minimum wage workforce is employed by small businesses. And according to the U.S. Department of the Treasury, most small businesses owners’ annual income is less than \$50,000 per year.

Myth: *Employers exaggerate when they say mandatory wage increases will harm business and employment prospects.*

Fact: Minimum wage advocates shrug off concerns raised by employers, but the impacts of mandatory government-imposed wage increases are real. Many businesses reported adverse impacts in the months following Pennsylvania’s last minimum wage increase in 2006, such as Kennywood Park outside Pittsburgh, which had to lay off 70 employees; or a chain of fitness stores in the Lehigh Valley, which had to lay off 100 workers. In Pennsylvania, most people earning minimum wage work in food and drink establishments that on average operate on razor-thin profit margins of around 4 percent. Ignoring concerns raised by employers who will face increased labor costs of anywhere from 40 to 107 percent (as various proposals aim to do) is shortsighted and unfair to the state’s job creators and the men and women they employ.

Myth: *Increasing the minimum wage is the best way to fight poverty.*

Fact: This oft-cited rationale for mandating wage increases is a myth for multiple reasons. The majority of those living at or below the poverty line cannot benefit from a mandatory wage increase because, according to the U.S. Census Bureau, they don’t have a job in the first place. A University of California at Irvine economist concluded that 85 percent of major academic studies on the minimum wage found a negative employment effect on low-skilled workers. Moreover, most minimum wage earners do not fit the demographic description that supporters use in their narrative. For example: most are under 24; a third live in homes in which annual income is over \$75,000; and over 80 percent have no children. The best way for government to fight poverty is to implement or strengthen policies that bridge the workforce skills gap and focus on programs that target the truly needy, like the Earned Income Tax Credit and Pennsylvania’s Tax Forgiveness program.

Myth: *The legislature should at least raise the minimum wage to \$10 because that’s around what it would be if it had been increased based on the rate of inflation since 1968.*

Fact: Advocates of a higher minimum wage consistently use 1968 as a historical reference point because that is the year in which the minimum wage hit its inflation-adjusted high point. Anyone can pick an arbitrary year: had minimum wage tracked inflation from, say, 1948, today it would be a little over \$3; or from 1988, it would be \$6.50. The federal government first set a minimum wage in 1938 at 25 cents, which means that, based on the logic employed by advocates, the minimum wage should be about \$4.07 today.

Myth: *Minimum wage will help the economy because people will have more money to spend.*

Fact: Government-mandated raises will indeed put more money in some people’s pockets; but that money comes from someone else’s pocket, most likely a small business owner. Therefore, while some people will benefit, others will lose their job or employers will not be able to expand, add new positions or hire back workers who had been laid off. Even more likely is that workers will see hours reduced, considering around three quarters of minimum wage earners work hourly part-time jobs. Advocates who claim artificially raising wages would significantly boost the economy seem to forget that the federal minimum wage was increased in 2007, 2008 and 2009 — years in which the country suffered through a debilitating recession and historically sluggish recovery.