AMERICANS FOR PROSPERITY®
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TESTIMONY OF JR ROMANO

STATE DIRECTOR OF AMERICANS FOR PROSPERITY

LABOR COMMITTEE

Bill it to Increase Minimum Wage

Jan 31st 2013

My name is JR Romano and I am the state director of Americans for Prosperity here in CT.

I am here today to express our opposition to an increase in the minimum wage.

Just as the idea of the minimum wage runs contrary to the concept of the free market, the suggestion to raise the minimum wage during a time when jobs and employers are fleeing our state makes no additional sense.

The fact is we already have a minimum wage in the state one dollar above the federal standards. Meddling in the market further makes no sense at this time.

While a minimum wage increase may sound good and be well intentioned, the statistics bear out that it will lead to severe unintended consequences and actually hurt those it sets out to help.

In the absence of a minimum wage, employers and workers are able to freely negotiate and come to mutual agreement on a contract – with employers paying a wage in return for the worker's labor. In a free market both parties must voluntarily agree to the terms of the contract, and the transaction will

occur only if both believe the arrangement will leave them better off. No worker would agree to work for less than what they believe is acceptable compensation, and no business would agree to pay more for labor than what it is worth to their operation.

However, minimum wage laws dictate to employers and workers that their agreed upon wage isn't high enough, invalidating otherwise mutually beneficial employment opportunities. Similarly, the minimum wage raises the cost of labor for businesses, leaving employers with a difficult choice when their budgets are limited: stop hiring new workers, cut hours or benefits for current employees, or start laying off existing employees all together. This can have a devastating impact on the economy, and it hits those who are currently unemployed and looking for a job particularly hard.

Increases in the minimum wage tend to increase unemployment by inflating labor costs and resulting in fewer hires. For example, studies reveal that with every 10 percent increase in the minimum wage, the affected area experiences a 1 to 3 percent decline in employment.

Additionally, increasing the minimum wage often has a ripple effect on wages causing employers to feel pressure to increase wages for other employees as well which only compounds the problem.

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NEED TO KNOW

The Minimum Wage

Politicians created the minimum wage in the wake of the Great Depression, arguing that compensation below a certain level is exploitative and inadequate to support a family. In 1938, the Fair Labor Standards Act instituted a federal minimum wage at $0.25 per hour. Since then, Congress has raised the minimum wage multiple times, adopting the current $7.25 per hour rate in 2009.[1] State governments may pass legislation to raise the minimum wage even higher within their state, but they are not allowed to set the rate below the federal level. Unfortunately, this well-intentioned effort has had severe unintended consequences, hurting the unemployed and the very same young and low-skilled workers it is intended to help.

The Minimum Wage and Labor Shortages

In the absence of a minimum wage, employers and workers are able to freely negotiate and come to mutual agreement on a contract – with employers paying a wage in return for the worker's labor. In a free market both parties must voluntarily agree to the terms of the contract, and the transaction will occur only if both believe the arrangement will leave them better off. No worker would agree to work for less than what they believe is acceptable compensation, and no business would agree to pay more for labor than what it is worth to their operation.

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This can have a devastating impact on the economy, and it hits those who are currently unemployed and looking for a job particularly hard. Congressman Jim Saxton reported in 1996 that raising the minimum wage just $0.90 cost the American economy hundreds of thousands of jobs.[2] The last minimum wage increase in July 2009 raised the inflation-adjusted minimum wage by 36 percent. A study by University of Chicago economist Casey Mulligan estimated that this cost the economy 800,000 jobs, mostly jobs for young and low-skilled workers.[3] Overall, studies find that with every 10 percent increase in the minimum wage, the affected area experiences a 1 to 3 percent decline in employment.[4]

Forced Wages Depress Freedom and Upward Mobility

In addition to the increasing unemployment, the minimum wage also affects other aspects of the labor market. A 2004 University of Wisconsin study confirmed that firms not only chose to stop hiring new employees and cut

QUICK FACTS

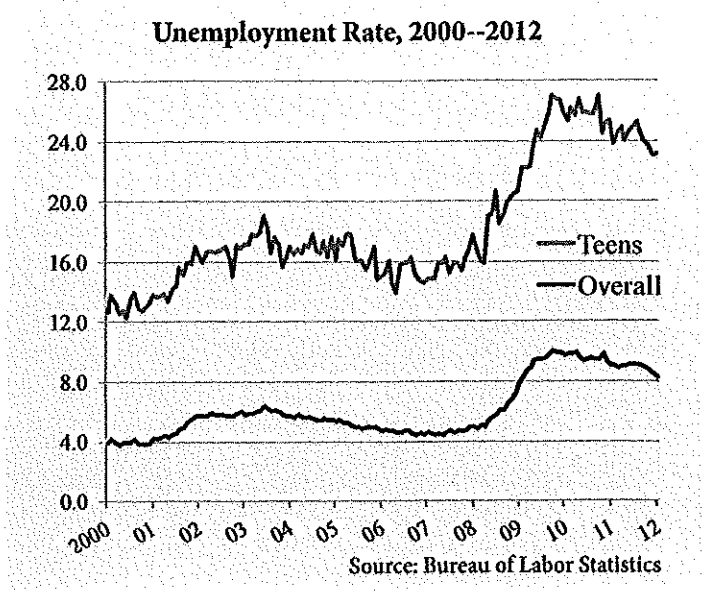
- Proponents of the minimum wage argue that it is needed to guarantee a "living wage" for workers. However, these laws tend to increase unemployment by inflating labor costs, resulting in fewer workers hired.
- Youth and entry-level job seekers are hurt the most by minimum wage increases, limiting opportunities for people to gain experience in the workforce.

NOTABLE & QUOTABLE

"[T]he consequences of minimum wage rates have been almost wholly bad--to increase unemployment and to increase poverty."
-Milton Friedman

"By destroying entry-level jobs, a higher minimum wage harms the lifetime earnings prospects of low-skilled workers."
-Fmr. Rep. Jim Saxton (R-NJ)

back existing jobs, but also cut employees' hours as a way to save money.[5] The study also found that low-income workers, those with wages closest to the minimum wage, were hit the hardest. This creates a catch-22: workers have a hard time finding entry-level positions because they lack access to critical job experience that boosts their appeal to employers, but the minimum wage makes it more expensive for employers to hire these workers into jobs that provide the kind of critical job experience they need.



Minimum wage laws have the unintended consequence of increasing unemployment and reducing opportunities for young and low-skilled job seekers.

One of the most striking statistics associated with hikes in the minimum wage is the youth unemployment rate. In the wake of higher minimum wages in the past few years, youth unemployment skyrocketed above the national average. As of January 2012, the Bureau of Labor Statistics reported an unemployment rate of 23.2 percent for 16-19 year-olds; nearly triple the rate of unemployment for the general population.[6] Young Americans looking to jumpstart their career lack opportunities when businesses cannot afford to pay mandated higher wages.[7]

Conclusion

The history of minimum wage laws in the United States tells the story of a failed government intervention into the economy. Minimum wage laws have the unintended consequence of increasing unemployment and reducing opportunities for young and low-skilled job seekers. Despite these discouraging outcomes, politicians have continued to press for a higher minimum wage. For too long, this has hindered Americans in their quest for prosperity. Instead of creating more labor market barriers, policymakers should let individuals and businesses freely decide what wage levels are appropriate.

Endnotes:

1. U.S. DEPARTMENT OF LABOR, *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act*, 1938 – 2009 (online at http://www.dol.gov/whd/minwage/chart.htm) (accessed February 6, 2012).
2. JOINT ECONOMIC COMMITTEE, Written Testimony of Congressman Jim Saxton, *The Case Against a Higher Minimum Wage* (May 1996) (http://www.house.gov/jec/cost-gov/regs/minimum/against/against.htm).
3. Casey B. Mulligan, *How to Create Jobs and Cut the Deficit*, NEW YORK TIMES, Economix Blog (July 6, 2011) (online at http://economix.blogs.nytimes.com/2011/07/06/how-to-create-jobs-and-cut-the-deficit/).
4. Phil Kerpen and Nicole Kaeding, *A Starter Wage for Teenagers*, THE NATIONAL REVIEW (July 22, 2011) (online at http://www.nationalreview.com/articles/272259/starter-wage-teenagers-phil-kerpen) .
5. David Neumark, Mark Schweitzer, and William Wascher, *Minimum Wage Effects Throughout the Wage Distribution*, THE JOURNAL OF HUMAN RESOURCES (Spring 2004) (online at http://www.jstor.org/stable/3559021).
6. U.S. BUREAU OF LABOR STATISTICS, *The Employment Situation – January 2012* (February 3, 2012) (online at http://www.bls.gov/news.release/archives/empsit_02032012.pdf).
7. THE WALL STREET JOURNAL, *The Young and the Jobless* (Oct. 3, 2009) (http://online.wsj.com/article/SB10001424052970203440104574402820278669840.html).

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