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**Minimum Wage, Maximum Pandering**

Now this is just what Pennsylvania's businesses need: A cleverly disguised income redistributing tax increase. Of course, it goes by the more politically palatable name of minimum wage hike.

The Legislature is closing in on a bill that will boost the state's minimum wage to \$7.15 per hour by July 1, 2007; January 1, 2008 if the Senate version passes. The current minimum is the Federal rate of \$5.15.

It is time to cut through all the vacuous, ill-informed and misleading rhetoric about how working families will benefit from a boost in the minimum wage and look at reality. According to the Department of Labor and Industry, approximately 423,000 workers, most of whom are not a family's primary wage earner, currently earn between \$5.15 and \$7.15 per hour—the current and proposed minimum wages in Pennsylvania. Assume that the average wage paid to this group is half way between at \$6.15 per hour. That means that after the new minimum goes into effect, the annual wage bill of Pennsylvania's businesses will rise by almost \$900 million, an average of over \$2,000 for the 423,000 workers.

By the same token, workers currently earning \$5.15 per hour will get a wage jump of \$2.00--nearly 40 percent--pushing employers' annual cost upward by about \$4,000 per employee for those working full time. Obviously, there is no way companies in highly competitive sectors such as eating and drinking, leisure and hospitality, or retailing can absorb wage cost increases of this magnitude. Certainly, small Mom and Pop businesses that are already struggling to get by will not be able to afford the mandated wage hike. To the extent they can, businesses will try to pass as much of their higher cost along to customers. Thus, the minimum wage boost can be viewed in part as a higher consumption tax.

To the extent that the enlarged wage costs cannot be passed along to customers, businesses will have to make decisions about personnel cutbacks and/or benefit reductions. Here's the really ugly part. Workers currently making more than minimum and also getting some health coverage or other company paid benefits could see appreciable cuts in their benefits as employers try to find ways to meet the higher state-mandated payroll.

Furthermore, workers who are making say, \$7.25 per hour prior to the minimum wage hike because they had developed skills and experience sufficient to raise the value of their production well above that of very low skill, entry-level positions, will find themselves earning little more than people whose market value is 30 percent below their own. This will not be conducive to maintaining a contented workforce.

This situation wonderfully exemplifies the so-called “seen and the unseen” problem. The workers receiving a nice fat pay jump courtesy of the Governor and legislature will be ecstatic and the politicians will gloat over the marvelous thing they have done for the “little guy”. Meanwhile, consumers who are picking up part of the higher wage cost through increased prices, the workers who are losing jobs or benefits, and the businesses that might have to close their doors altogether will get little attention. Certainly, Pennsylvania’s already poor business environment will only get worse. But, that’s what we have come to expect from governments that don’t believe in or trust competitive, free markets and who are wedded to statist policies.

Experience shows us that market defying income-redistributing policies lead to a lowering of aggregate production and incomes relative to where they would be absent the redistributive policies. That’s the minimum wage story. Government mandated redistribution for a supposed greater good. The public gets suckered every time.

Perhaps even more disturbing about the cries for raising the minimum wage is that they completely ignore the illegal aliens working in the state who are paid less than the current minimum wage and by doing so are depressing market wages in several occupations. Instead of dealing with one of the main reasons that wages for lower skill Americans are not rising, namely, intense competition from workers who are in the country illegally, the proponents of minimum wages think they can solve the depressed wage problem by mandating an increase in the minimum.

However, since many of these illegal workers are making less than minimum wage now and cannot complain about it, why would we expect they will get a wage increase to the new higher level? Indeed, it is extremely improbable that illegal workers will get much benefit from a boost in the minimum wage. Moreover, because many don’t earn as much as the current minimum--and get no fringe benefits--the total compensation gap between them and legal workers will expand, making illegal aliens even more attractive to hire than American citizens who must be paid the minimum wage. This is an unintended but easily predictable unpleasant result of raising the minimum.

Legislative plans to boost the minimum wage represent an utter failure of Pennsylvania’s elected officials to consider the plethora of negative consequences that will befall the general welfare of the Commonwealth while they bow to special interests one more time.

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