



economist

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## DISCUSSION & REVIEW QUESTIONS:

- Who is hurt most by a minimum wage increase? In what ways?
- Often, those who advocate for raising the minimum wage are well-meaning, but get too narrowly focused on their presumed outcome: that hourly employees will end up earning more money per paycheck and be happier. However, as we learn in the video, this outcome is hardly ever the case, at least not without negative tradeoffs that might not make it worth it for the employee to continue working at their job. What other presumptions do you think minimum wage advocates make, and what important conclusions are they missing and not taking into account when advocating their cause?
- Dr. Henderson informs us that advocates for minimum wage increases often argue that, "...while some young people might be priced out of the job market, this is outweighed by the fact that those who have minimum wage jobs will get a wage increase." Even if this were true, do you think it's morally acceptable to have the hourly workers presumed better life outweigh the quality of life for teenagers and low-skilled workers trying to enter the job market?
- Advocates for a minimum wage increase often neglect the fact that many hourly jobs are not meant to be careers for people. Crew members at McDonald's get paid on an hourly wage, however most managers at McDonald's are salaried, not hourly. If a person works at McDonald's for seven years, they are not expected to still be just a crew member going into their eighth year. Still, the advocates essentially argue, hourly workers should get paid enough to pay for cable TV, family phone plans, and to raise a family in a decent-sized abode without having to struggle. What are your thoughts on this matter?
- What are some better solutions to improving the quality of life for hourly wage earners other than to raise the minimum wage?
- Legislating a mandatory minimum wage is another intrusion on and restriction of free enterprise in America. Why and how is this particularly damaging, especially in terms of traditional American values and ideals? To whom is it the most damaging? Why?

## EXTEND THE LEARNING:

### CASE STUDY: Z Pizza, et al.

INSTRUCTIONS: Read the article, “‘The Faces of \$15’: Real stories of the real consequences of raising the minimum wage,” then answer the questions that follow.

- Which negative effects of raising the minimum wage discussed in the video have become a reality for the specific cases enumerated in the article?
- Do you think that overall the workers, business owners, and communities at large in the article are benefitting from the increased minimum wage? Why or why not? Do you think that 10 years from now those communities hit by the increased minimum wage will believe that it was worth it? Why or why not?
- If you do further research on the internet regarding anecdotal evidence of the consequences of raising the minimum wage, do you think that you will find more stories of the increase benefitting people and businesses or more stories of the increase hurting people and businesses? What is the reasoning for your supposition?



# QUIZ

## WHAT'S THE RIGHT MINIMUM WAGE?

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1. The headline “The Right Minimum Wage: \$0.00.” from 1987 appeared in which newspaper?
  - a. Los Angeles Times
  - b. Boston Herald
  - c. Wall Street Journal
  - d. New York Times
  
2. Raising the minimum wage does which of the following for young workers:
  - a. Makes it harder for them to get jobs.
  - b. Loss of the opportunity to gain work experience.
  - c. Prices them out of the job market.
  - d. All of the above.
  
3. Two outcomes of a minimum wage are:
  - a. Increased productivity and higher prices.
  - b. Unemployment and higher prices.
  - c. Unemployment and economic growth.
  - d. Higher prices and economic growth.
  
4. If you're willing to work at a lower pay than the minimum wage, minimum wage laws allow it.
  - a. True
  - b. False
  
5. What happened after Connecticut raised its minimum wage to \$10.10?
  - a. Businesses gave their employees bonuses.
  - b. Businesses cut costs by cutting employee hours.
  - c. Businesses profits increased.
  - d. Businesses hired younger employees.



# QUIZ - ANSWER KEY

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# ‘The Faces of \$15’: Real stories of the real consequences of raising the minimum wage

An increase in the minimum wage has some very predictable economic effects, some positive, but mostly negative, here’s a summary of some of those effects:

## A. Positive Effects of Minimum Wage Increases:

1. **Some low-skilled, limited-experience workers will benefit if they are able to keep their jobs** (and some workers who manage to find a job) at the higher minimum wage, without having their hours cut and who don’t lose any fringe benefits (paid vacation, free uniforms, profit-sharing, health care, employee discounts, parking, tuition reimbursement, etc.).

## B. Negative Effects of Minimum Wage Increases:

1. **Low-skilled workers who lose their jobs** due to an increase in the minimum wage.

2. **Low-skilled workers who can’t find a job** following an increase in the minimum wage.

3. **Workers who keep their jobs** following a minimum wage hike but have their hours reduced or who lose some of their fringe benefits to the point that they are worse off after the minimum wage increase than before in terms of take-home pay and total compensation.

4. **Companies and small businesses who hire unskilled and low-skilled workers** and find it difficult to absorb labor cost increases of 40% or higher, especially businesses like restaurants that operate on razor-thin profit margins of 5% or less. Some of these businesses may shut down, contract, or scrap any plans they had to expand their operations (e.g. open new stores or restaurants). Other start-up businesses that might have been planning to open may now decide that they cannot operate profitably with the higher labor costs mandated by a minimum wage hike.

5. **Consumers and patrons of small businesses, book stores and restaurants** who now face higher prices in response to an increase in the minimum wage if their preferred businesses can only remain open by raising prices. If some businesses close because they can’t absorb increases of 40% or higher in their labor costs, consumers can be harmed by a reduction in shopping options available to them, especially if they were loyal patrons of a preferred restaurant, store, book store, etc.

**Discussion:** Most of the discussion on the minimum wage focuses on the minimal benefits to some workers (Item A1 above), while ignoring the overwhelming negative costs and consequences for workers, employers and consumers (Items B1 to B4 above). The fact that 71% of Americans support raising the minimum wage suggest that the general public exaggerates the minimal benefits of higher mandated wages for a few workers while completely ignoring and/or under-estimating the significant costs and hardships for a much larger number of business owners, employees and consumers.

To help the general public understand the reality that “Raising the minimum wage has big consequences for small businesses,” the website “[The Faces of \\$15](#)” (a project of the [Employment Policies Institute](#) and [MinimumWage.com](#)) highlights “**real faces of \$15**” with real stories of the employers who struggle to survive with significantly higher labor costs from minimum wage hikes (and who sometimes fail and go out of business) and of the real hardships that many low-skilled, limited-experienced employees face. As these stories show, increases in the minimum wage often mean fewer opportunities for both small businesses and for the unskilled and low-skilled employees that these laws are meant to help. Here are 12 of those stories:

**1. Abbot’s Cellar in San Francisco.** One of San Francisco’s most-buzzed-about new Mission restaurants closed its doors at the end of January, citing the [then-impending minimum-wage hike](#) on May 1 as its death knell.

**2. Anonymous San Francisco Apparel Manufacturer.** This family-run business that contracts to make clothing for a company in San Francisco had to slash its staff after Oakland’s minimum wage increased. It used to be the owner and her husband, plus five to six other workers; now it’s 1-2 additional staff members.

**3. Boca Nova in Oakland.** The restaurant’s servers will no longer receive tips. “A note on the menu reads: ‘In lieu of gratuity, a 16% Lift Up Oakland Surcharge and 4% Service Charge will be added to your check beginning March 1st, 2015.’ The 4% goes directly to servers. The 16% covers the cost of raising other staff salaries.”

The [Contra Costa Times](#) reports that this policy change represents a pay cut: Servers made between \$38 and \$70 an hour with tips before the change; now they’ll earn between \$22 and \$28 an hour. The Times said that “about 60% of the restaurant’s wait staff, concerned their income would drop, decided to quit because of the policy...”

**4. Boot and Shoe Service in Oakland.** The owner raised prices by 16% at his three restaurants in Oakland, following the city’s 36% minimum wage hike to \$12.25 per hour in March.

**5. Booth Memorial Child Development Center in Oakland.** If the Salvation Army can’t scrounge up money to cover the 36% wage hike by writing grants and finding donors, it might have to cut some of its 63 child care slots.

**6. Borderland Books in San Francisco.** The owner was set to close his bookstore this year, in the wake of San Francisco’s plan to hike the city’s minimum wage to \$15. But Borderlands Books is getting a lifeline from nearly 500 customers who have purchased \$100 annual membership subscriptions — one that will keep it open for at least another year. If customers with a membership purchase one book per month, they would pay an additional fee of more than \$8 for each book.

**7. Comix Experience in San Francisco.** The bookstore “will soon have to generate an additional \$80,000 a year in sales just to meet the minimum wage rise. ... In order to fully cover the shortfall, we need to sell 334 memberships at the yearly rate of \$240.”

**8. Icon Grill in Seattle.** Following the minimum wage increase, all employees at the restaurant will now only get one week of paid vacation. Some employees who’ve worked at the restaurant for more than a decade will lose three weeks of vacation.

**9. Chinatown in Oakland.** Four restaurants and six grocery stores in and around Chinatown have already shuttered since January, at least partly for fear that the wage increase was going to put them over budget. Among them is Legendary Palace, one of two banquet restaurants in the neighborhood.

**10. Reaching Beyond Care in Oakland.** Child-care assistant Eunice Medina, 23, was thrilled when Oakland's 36% increase in the minimum wage took effect in March. But almost as quickly, Medina's workdays were cut and her hours shaved from eight to six. Her employer, Asiya Jabbaar, says she had no choice. Despite slicing hours and laying off one of three assistants, Jabbaar says she still may need to close her business next year and convert it to a part-time after-school program. Her experience illustrates what can happen to small employers when minimum wages jump suddenly.

**11. Sterling's Family Childcare in Oakland.** The owner, Muriel Sterling, significantly reduced hours for her employees in response to the wage increase— they were coming in at 7:30 am, and now they come in at 10 or 11. She's also planning rate increases for some families, and she's had to eliminate a "free rides" service she provided to members of the community.

**12. Z Pizza in Seattle.** In August, Z Pizza is closing, putting 12 employees out of work. Owner Ritu Shah Burnham doesn't want to go out of business, but says she can't afford the city's mandated wage hikes. "I've let one person go since April 1, I've cut hours since April 1, I've taken them myself because I don't pay myself," she says. "I've also raised my prices a little bit, there's no other way to do it."

Small businesses in the city have up to six more years to phase in the new \$15 an hour minimum wage. But Shah Burnham says even though she only has one store with 12 employees, she's considered part of the Z Pizza franchise — a large business. So she has to give raises within the next two years.

**MP:** As predicted above, the minimum wage increases in San Francisco, Oakland and Seattle have led to predictable and negative consequences: a) business closings (#1, #9 and #12), b) reductions in employment (#2), c) reductions in hours and fringe benefits (#8, #10 and #11), d) higher prices for consumers (#3, #4, #6, and #7), and d) reduced options for consumers (#5). And as even higher minimum wage hikes are phased in over the next few years in these cities (and as minimum wage laws are passed in other cities), we can expect the number of real stories highlighted by "Faces of \$15" to grow larger and larger.

## About the author

Mark J. Perry is concurrently a scholar at AEI and a professor of economics and finance at the University of Michigan's Flint campus. He is best known as the creator and editor of the popular economics blog *Carpe Diem*. At AEI, Perry writes about economic and financial issues for *American.com* and the *AEIdeas* blog.