A Higher Minimum Wage Would Hurt, Not Help West Virginia

West Virginia State Senate Bill 146 and House Bills 4023/4051 propose to increase the minimum wage in West Virginia above the $5.15 level mandated by federal law. If passed, the minimum wage in West Virginia would rise to $7.25 by June 2008.

A higher minimum wage will increase the cost of hiring low-skilled workers. Basic economics tells us that businesses will use less low-skilled labor as a result. Hiring a backhoe is now cheaper than hiring fifty men with shovels. Despite good intentions, a higher minimum wage hurts precisely those people the law is intended to help—those with the lowest skills (earnings). Firms will only retain workers whose productivity justifies this higher wage, and fewer employees now meet this criterion.

In some cases, businesses can keep from having to lay off workers by finding other ways to keep the total compensation package for employees in balance with worker productivity, by lowering fringe benefits or on-the-job training for example. But this clearly hurts workers as well. Businesses can also try to raise prices to cover the higher labor cost, but this reduces sales, causing fewer workers to be needed in production.

The proposed legislation would increase the minimum wage by more than 40 percent. Economists estimate that for every 10 percent increase in the federal minimum wage, low-skilled employment declines by between 1 and 3 percent. But this is when the change applies to all states. The employment losses are larger when a particular state changes its minimum wage. West Virginia businesses would be at an immediate cost disadvantage relative to out-of-state competitors, making the job losses even larger. Future job growth will also suffer as firms making location decisions will not choose West Virginia because it costs more to produce here. Job loss rates among low-skilled workers could easily reach the double digits from this legislation, despite good intentions.

In the February 3 edition of the *State Journal*, an article arguing in favor of the minimum wage cites a controversial study by Card and Krueger that found a positive, not negative, impact of the minimum wage on employment. This study, however, has been the subject of many follow-up studies that entirely discount their findings. One study used actual payroll records in place of the original phone survey data, and found the expected negative impact. Additionally, Card and Krueger looked at the number of employees working, not the number of hours worked. Firms in the study were found to have replaced a smaller number of full-time employees with a larger number of part-time employees, but still the overall number of hours worked dropped. In regard to the study, Nobel Laureate economist Gary Becker says “the Card-Krueger studies are flawed and cannot justify going against the accumulated evidence from many past and present studies that find sizeable negative effects of higher minimums on employment.”

If we want to help less fortunate families in our state, there are better ways than raising the minimum wage. State income tax credits and deductions applying only at lower income levels could put an identical amount of money into low-skilled worker’s hands, without the horrible side effect of potentially causing them (and others) to lose their jobs.

A higher state minimum wage would cause large job losses, slow future job growth, and result in fewer businesses in West Virginia. Passing legislation that puts West Virginia businesses at a cost disadvantage relative to out-of-state competitors certainly isn't being 'Open for Business.'

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