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The Minority Youth Unemployment Act

A higher minimum wage will hurt Obama's most loyal supporters.

One paradox of the Obama Presidency is how it has retained the support of young people and minorities despite the damage its policies have done to their economic prospects. In his latest attempt to increase the minority youth jobless rate, President Obama is proposing to raise the minimum wage.

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Employment Policies Institute research director Michael Saltsman on President Obama's call for increasing the minimum wage and state efforts to do likewise. Photo: Getty Images

In his State of the Union address, Mr. Obama proposed an increase to \$9 an hour by 2015 from \$7.25, and then indexing the minimum to inflation. "Employers may get a more stable workforce due to reduced turnover and increased productivity," the White House says. No doubt employers are slamming their foreheads wondering why they didn't think of that.

And don't worry about lost jobs. "A range of economic studies," a White House memo assures, "show that modestly raising the minimum wage increases earnings and reduces poverty without measurably reducing employment." Note the shifty adverbs, "modestly" and "measurably," which can paper over a lot of economic

damage.

In the real world, setting a floor under the price of labor creates winners and losers. Some workers will get a \$1.75 raise. Great. But others—typically the least educated and skilled—will be priced out of the job market and their pay won't rise to \$9. It will be zero.

University of California at Irvine economist David Neumark has looked at more than 100 major academic studies on the minimum wage, and he says the White



House claim of de minimis job losses "grossly misstates the weight of the evidence." About 85% of the studies "find a negative employment effect on low-skilled workers."

The minimum wage is also an ineffective way to reduce poverty. Most families in poverty don't have someone who works, so making it more difficult to get a job exacerbates poverty. Mr. Obama says that a "family with two kids that earns the minimum wage still lives below the poverty level. That is wrong."

He left out that most minimum-wage earners are not the primary bread winner. Nearly 40% live with a parent or relative. The average family income of a

household with a minimum-wage worker is about \$47,023—which is far above the poverty line of \$23,550 for a family of four.

Mr. Obama didn't even tell the whole story about parents raising a family on a minimum-wage income. A full-time minimum-wage worker earns roughly \$15,000 a year. But that worker also receives a cash supplement from the earned income tax credit of roughly \$5,000, and many states provide benefits on top of that to reward working. That doesn't count government benefits like food stamps, Medicaid, child care and more. According to data from the Employment Policies Institute, about two of every three minimum-wage workers also get a raise within one year.



Bloomberg

President Obama during the State of the Union, in which he called for raising the minimum wage.

The damage from a minimum wage hike depends on the overall labor market. If the job market is buoyant, as it is in the fracking boomtown of Williston, N.D., fast-food workers may already make more than \$9 an hour. But when the jobless rate is high, as it still is in California and New York, the increase punishes minority youth in particular.

That is what happened during the last series of wage hikes to \$7.25 from \$5.15 that started in July 2007 as the economy was headed toward recession. The last increase hit in July 2009 just after the recession ended, and as the nearby chart shows, the jobless rate jumped

for teens and black teens especially. For black teens, the rate has remained close to 40% and was still 37.8% in January.

A study by economists William Even of Miami University and David Macpherson of Trinity University concludes that in the 21 states where the full 40% wage increase took effect, "the consequences of the minimum wage for black young adults without a diploma were actually worse than the consequences of the Great Recession."

William Dunkelberg, chief economist for the National Federation of Independent Business, says

that after the July 2009 increase 600,000 teen jobs disappeared in the next six months even as GDP expanded. In the previous six months, when the economy was still shrinking, half as many teen jobs were lost. The overall teen jobless rate was still 23.4% last month, which means demand for unskilled workers is low even at \$7.25 an hour. Demand will be lower at \$9.

Mr. Obama's economists know all this, but then the minimum wage has nothing to do with poverty or unemployment. It's a political play to reward unions and box in Republicans. The minimum wage polls well because Americans naturally want everyone to make more money, and the damage in forgone jobs isn't obvious.

It'd be nice to think that some Republicans, even one, would make the moral case that the minimum wage hurts the poorest workers. But both Presidents Bush, 41 and 43, went along with increases and so did the Newt Gingrich Congress in 1996. Mr. Obama knows that history. Republicans may fold again to take the issue off the table in 2014, but it's a tragedy that those who will suffer the most are Mr. Obama's most ardent supporters.

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