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Market Raising Wages Without Government Help

By Jamie T. Richardson

Lexington's Urban County Council recently began discussing a 39 percent citywide minimum wage increase. But such a move may be preempted by the wage hikes happening now at the city's major employers.

Walmart recently announced one of the most expansive private wage raises in history, boosting the pay of approximately half a million employees, including those at the six locations in Greater Lexington, to at least $10 an hour.

But it's been greeted with a collective "meh" from activist groups and populist policymakers who want the government — not the market — to be the catalyst of wage growth.

Walmart is one of many big companies — including GAP, TJ Maxx and Panera Bread — that have recently given pay bumps to their lowest-paid employees.

At White Castle, which has two locations in Greater Lexington, we've been able to partially buck this trend by paying the average hourly team member 35 percent more than the minimum wage and giving access to valuable benefits. (More than one in four of our 10,000 team members has been with us for 10 years or more.)

Partially as a result of increased demand for labor, wages are rising for most entry-level employees. According to data from the Bureau of Labor Statistics, average hourly earnings for low-wage sectors like retail and leisure and hospitality are rising approximately 36 percent faster than the private economy as a whole.

While that's good news for the working class, which has largely been bypassed by the economic recovery, it's bad news for those who have based their careers on the familiar trope that the market isn't increasing wages so government must step in.

At an AFL-CIO "Wage Growth" summit last winter, Labor Secretary Thomas Perez led a clamoring group of activists arguing that low wages are "a choice" that can be overcome by government policies.

Even purported defenders of free markets have relied on similar flawed logic. New York Chamber of Commerce CEO Carlo Scissura said in a recent New York Daily News op-ed that "market forces are not generating the shared prosperity that most Americans hope for; a wage boost for the lowest-paid workers is clearly the most direct way to correct that."

In addition to being empirically incorrect — as evidenced by Bureau of Labor Statistics data and the wage growth at big companies — these claims overlook the fact that government wage hikes have real consequences, no matter how market wage growth is faring. Foremost among these is the reduced job opportunities that come as a result of job creators scaling back on shifts, hours and expansion in an attempt to absorb higher labor costs.

Despite attempts by minimum-wage proponents to downplay these effects, economists overwhelmingly conclude that they exist.

In fact, in an analysis of two decades of research on the topic, economists from University of California-Irvine and the Federal Reserve Board find that 85 percent of the best studies conclude that minimum-wage hikes reduce job opportunities — especially among the least skilled.

But you don't have to consult the academic literature to understand this phenomenon. You can likely just talk to small-business owners in an area where the minimum wage has recently risen. In San Francisco, which recently passed a $15 minimum wage, several small businesses have either closed or announced they will close, citing the wage hike as the driving reason.

Ironically, government-imposed wage hikes can reduce the demand and increase the supply of labor, disrupting factors partially responsible for market-based wage increases. In this sense, government wage hikes — even municipal ones — are little more than siren songs that divert the sailing of the economy.

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