



## Help Texans by Not Raising the Minimum Wage *Testimony before the House Business & Industry Committee against HB 285*

by Vance Ginn, Ph.D.

Chairman Oliveira and Members of the Committee:

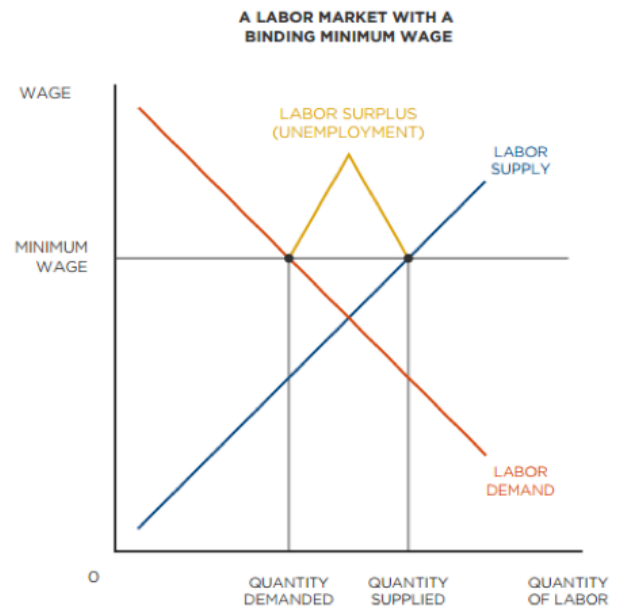
My name is Dr. Vance Ginn and I am an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based here in Austin. I appreciate the opportunity to testify today against legislation that would raise the state's minimum wage. [HB 285](#) intends to raise it from currently matching the federal minimum wage of \$7.25 per hour to a higher state minimum wage of \$15 per hour. Like other well-intentioned policy proposals, research and basic economics show raising this wage is poor policy and most harms those it is intended to help.

A minimum wage is a government-mandated wage control that centralizes power out of the hands of workers and employers. There is a rare [near consensus](#) among economists that binding price controls distort economic activity, but politics often gets in the way of seeing the fallacy of a wage control. As the Figure below illustrates, setting a minimum wage floor above the market wage results in unemployment. It can also push unemployed workers who would take a job earning less than the minimum wage into long bouts of unemployment and dependency on family or taxpayers.

The first federal minimum wage in the U.S. was implemented in 1938 under the Fair Labor Standards Act during the Great Depression. An argument was to prevent employers from taking advantage of workers by paying them too low of a wage based on the work provided. Since that time, Congress has raised the federal minimum wage 22 times to supposedly reflect changes in the cost of living to the current level of \$7.25 per hour. This government-mandated wage makes it illegal for employers to pay a wage and for workers to accept a wage below this level. The initial good intention fails to materialize.

Here are key findings related to the minimum wage that I hope you will consider in your deliberation:

- There is a common misconception that the labor market is different from other markets where individuals voluntarily negotiate prices. Similar to other price controls, such as maximum gasoline price controls that resulted in long gas lines in the 1970s, wage controls reduce the ability of employers and workers to negotiate a wage that satisfies their desires and destroy economic activity. In a voluntary market, higher worker productivity is what drives higher wages and more employment.
- The Bureau of Labor Statistics' (BLS) [data](#) show that 2.6 million people nationwide, or only 3.3 percent of the 78.2 million hourly paid workers, earned at or below the minimum wage in 2015. Almost 20 percent of them were 16- to 19-year-olds and almost half were 16- to 24-year-olds. Many in these age groups provide supplemental household income, are in college, or are starting their career and do not earn this wage long. If these individuals are forced out of their job by a higher minimum wage, then it makes it harder for them to move up the income ladder and improve their well-being.



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- The BLS [data](#) for Texas show that 287,000 people statewide, or only 4.7 percent of the 6.1 million hourly paid workers, earned at or below the minimum wage in 2015. Meanwhile, the [median hourly wage](#) was \$16.61 per hour in Texas that year—more than double the minimum wage of \$7.25. Unfortunately, a breakdown of Texas’ data by age is not readily available, but data are likely similar to that at the federal level.
- Research shows that Texas could lose nearly [one million](#) full-time jobs if the minimum wage was raised to \$15 per hour—more than any other state.
- If employers are not able to adapt to market changes by firing low-skilled workers, another option to avoid profit losses or shutting down is to raise prices. Higher prices reduce everyone’s buying power, particularly those who received a higher minimum wage, highlighting the arbitrary nature of a government-mandated wage. The government lacks sufficient knowledge to mandate an appropriate wage that is available in only a voluntary exchange market.
- The minimum wage puts more power in the hands of higher-skilled workers who will build and maintain labor-saving products, like kiosks, contributing to an [upward](#) redistribution of income.

Instead of resorting to the misdirected policy of a government-mandated minimum wage that doesn’t raise standards of living in Texas, the Legislature should focus on solving the underlying causes of poverty.

A good place to start would be with providing [education freedom](#) to improve student outcomes through reforms such as education savings accounts (ESAs), which would result in increased human capital so future workers can demand higher wages. In addition, for those workers already in and those that will enter the labor market, holding government spending increases to no more than population growth plus inflation so that taxes can remain lower than otherwise, including elimination of the [business franchise tax](#), would contribute to more well-paying job opportunities statewide.

Raising the minimum wage may seem helpful on its surface, but a deeper look reveals that government control of wages hurts low-skilled workers it is intended to help and hinders economic progress. Instead, we recommend strengthening the Texas model of limited government that supports prosperity.

Thank you for your time and I look forward to answering your questions.

**Vance Ginn, Ph.D.**, is an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation. He is an expert on Texas’ state budget, franchise tax, tax and expenditure limit, and other fiscal issues. Before joining the Foundation in September 2013, Ginn was a Koch Fellow, and taught at three universities and one community college in Texas. He has published peer-reviewed articles in academic journals, as well as commentaries in major media outlets across Texas and the nation.

