Killing Them Softly:

The Unintended Consequences of Minimum Wage Policy

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1. Introduction

In 2016, the Obama Administration released a report entitled "Raising the Minimum Wage: A Progress Update."[1] The update restated the President's commitment to significantly raising the federal minimum wage, claiming that millions of Americans would receive substantial earnings increases while only half a million would lose their jobs. Certainly, this is an appealing trade-off on its face, and many states have already bought in, passing massive minimum wage hikes in the past decade. Yet, as with every policy, the question must be asked: is it really that simple? Economics papers on the employment effects of minimum wage are a dime a dozen. Policymakers can choose from hundreds of papers with conflicting findings to support whichever outcome they desire. Evidence in favor of minimum wages based on their positive or neutral employment effects is easily accessible (see Card and Kreuger 1995 or Dube, Lester and Reich 2010), and opponents don't have to look far for their own support (see Neumark and Wascher 2007, 2008). However, in the past 3 decades, employment effects of minimum wages have been the sole focus. Other than Ippolata 2003 and Hirsch, Kaufman, and Zelenska 2011, the economics profession has largely ignored other notable consequences to minimum wage laws. This paper sets employment effects aside, important as they may be, focusing on equally important and grievously underexamined compensation and employee composition effects. This paper also sets aside minimum wage induced firm adjustments that do not affect employees, such as product price adjustment. Understanding that firms adjust differently based on varying constraints, the paper aims to provide a more holistic, and nuanced analysis of minimum wage consequences to individual employees. This analysis yields an unavoidable conclusion that

[1] (President 2016)

minimum wages carry numerous negative consequences that must be weighed whenever the policy is considered.

The minimum wage debate has been ongoing in economics for centuries, though its intensity has increased markedly in recent decades. Before examining the nuances of this debate, it is important to examine the history of these laws. Minimum wages were first called for in 19th century Britain as unions lobbied for improved working conditions and sought to 'democratize' unregulated industries. Australia beat them to the punch, however, enacting the first minimum wage law in 1894. The United Kingdom followed suit in 1909 with the minimum wage applying to only a few, dangerous, and especially unsavory industries. In the United States the minimum wage was viewed as a moral obligation by some companies. Before the government mandated minimums wages, many companies used it as a marketing tool hoping to appeal to the ethical sensibilities of consumers. Massachusetts became the first state to require a minimum wage in the United States in 1914. In 1938, in a flurry of legislation motivated by the great depression, the federal minimum wage law was passed as part of the Fair Labor Standards Act. From the outset, minimum wages have been called for as a way to improve the conditions of the poor and to help them reach self-sufficiency.[2] Whether this policy is effective in achieving this goal is rarely evaluated.

As stated before, the most recent debate in economics on minimum wage laws has centered around disemployment effects. That being said, statements on "wage fixing laws" go all the way back to Adam Smith who mentions that the market for men is like the market for goods, arguing that there exists a "labor market" in which wages are determined as prices are in other

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[2] (Neumark and Wascher 2008)

markets.[3] John Stuart Mill chimed in in 1848, writing "If law or opinion succeeds in fixing wages above this [competitive] rate, some laborers are kept out of employment."[4] In 1897, Alfred Marshall encourages economists to "fight conventional wisdom on minimum wages, not because one disagrees with the goal of alleviating poverty among the working poor, but because minimum wages do more harm than good."[5] This brief survey of statements from major economists serve to show that disemployment effects of wage fixing laws were largely agreed upon in the profession.

2. A Review of Minimum Wage Literature

This consensus underwent its first major assault with the publishing of Card and Krueger's *Myth and Measurement: The New Economics of the Minimum Wage.* This groundbreaking exploration of employment effects cast a century of consensus into doubt. In the introduction of the book, in reference to the aforementioned consensus, Card and Krueger write, "Such a high degree of consensus is remarkable in a profession renowned for its bitter disagreements. But there is one problem: the evidence is not singularly agreed that increases in the minimum wage reduce employment."[6]*Myth and Measurement* boils down to four key findings. First, empirical research done by Card and Kreuger finds positive or neutral employment effects of a minimum wage hike. Second, they find no adverse effect on teenage employment. Third, they do not see a see a reduction of "fringe benefits" in lieu of job cuts. And finally, they argue that minimum wages reduce wage dispersion and help tackle wage inequality. These findings have been controversial to say the least. Hundreds of papers have been written in

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[3] (McNulty 1973)
[4] (Mill 1848)
[5] (Marshall 1897)
[6] (Card and Krueger 1995)

support of and criticizing the findings of Card and Kreuger. Controversial as it may be, it must be acknowledged that Card and Kreuger were able to identify certain situations where a higher minimum wage boosted employment, and they even briefly explore certain “fringe benefits” that might have been reduced in order to accommodate the higher cost of labor. Only partial credit can be awarded however, because Card and Krueger fail to consider many common adjustment channels. An interesting note on this book: it is because it is flawed that it has garnered so much popularity. Its flaws had economists rushing to defend it with more studies as well as economists rushing to destroy it. Had it been a bullet-proof dismantling of conventional wisdom there would be nothing to do other than to modify our textbooks, and had it been blatantly misleading, faulty, or fallacious, it would have been ignored. The book is somewhat of an enigma, walking the line between breakthrough and simply interesting, anomalous data sets. Its importance to this paper is twofold. First, it cast doubt on employment effects, begging the question: how else do firms adjust to a higher cost of labor? And secondly, its generation of continual preoccupation with employment effects, has, in my opinion, resulted in a major hole in economic literature.

The second economic work that must be addressed here is Neumark and Wascher’s *Minimum Wages.* This 2008 book surveys over two decades of research conducted on minimum wage laws (including *Myth and Measurement*) and offers a few studies of its own. In this incredibly thorough adjudication of nearly 35 research papers, Neumark and Wascher explore the history of minimum wages, their effects on employment, distributional effects on both wages and family incomes, the possible effects on training and skill acquisition, and the broader economic effects. In the end, they find “quite clearly” that minimum wage hikes lead to “a reduction in employment opportunities for low-skilled and directly affected workers”[7] They also

[7] (Neumark and Wascher 2008)

find no evidence for positive distribution effects for families at or below the poverty line which is extremely important in light of the policies oft stated goals. Finally, they find negative effects on skill acquisition by "reducing educational attainment and perhaps training."[8] Along with Card and Kreuger, Neumark and Wascher also consider adjustments other than employment, and this is to their credit. Their chapter on skill acquisition and training adds another piece to the puzzle, but it is not a complete analysis. The findings of the book are in direct refutation of *Myth and Measurement,* and its diligent reiteration of all available literature is quite compelling. *Minimum Wages* comfortably reasserts the consensus view of negative employment effects, but that has not stopped policy makers from continuing to reference the numerous studies displaying positive employment effects. In their concluding statements, Neumark and Wascher acknowledge "the existing body of minimum wage research has tended to overemphasize the effects of minimum wages on employment…such analysis represents only one piece of what is needed to assess whether minimum wages are a useful policy tool."[9]

The final economic work that warrants attention is Hirsch, Kaufman, and Zelenska's "Minimum Wage Channels of Adjustment." This 2011 paper analyzes the federal minimum wage increases of 2007-2009 by tracking the "adjustment channels" of fast-food restaurants in Georgia and Alabama. They "recast analysis of the minimum wage into a broad "channels of adjustment framework, moving well beyond the conventional emphasis on employment/hours effects."[10] Hirsch, Kaufman, and Zelenska assert correctly that the economic literature for the past few decades has had tunnel vision: focusing almost solely on employment effects. They broaden that scope of assessment to hours, prices, turnover, training, performance standards, and

[8] (Neumark and Wascher 2008)
[9] (Neumark and Wascher 2008)
[10] (Hirsch, Kaufman and Zelenska 2011)

non-labor costs. They ultimately find no significant effect on employment or hours and attribute that to adjustment by firms "including higher prices, lower profit margins, wage compression, reduced turnover, and higher performance standards."[11] This paper is on the right track; it is the first step in filling a serious hole in the literature. However, the paper finds the major adjustments caused by minimum wage policy to be the firms pricing behavior and profit margins. They find little or no effects on employment, hours, or training: all adjustments affecting the employee directly. Now, the purpose of this paper is not to directly refute Hirsch, Kaufman, and Zelesnka, but this paper will provide analysis that challenges their findings regarding employee compensation.

Before moving on from the literature review, I want to offer a brief critique of minimum wage literature that shows positive or neutral employment effects. Most, if not all papers in this vein of research study specific industries that are "bound" by minimum wage laws. Most often, that means these studies look at fast food restaurants because this industry employs more minimum wage workers than any other. By basing conclusions on the data sets collected for a certain industry in a certain location, economists open themselves up to missing disemployment effects elsewhere. For example: if a minimum wage law is passed and a firm is unable to cut employees because they are already operating at minimum manpower, they will undoubtedly cut costs elsewhere to maintain profit levels. These cost cuts come in a variety of ways, but perhaps a particular firm chooses to significantly reduce its delivery and catering capabilities. In doing so, it reduces the wear and tear on its delivery fleet, and the mechanic who is contracted to repair the fleet loses monthly business. This loss of business forces the mechanic to let go an employee. Furthermore, the auto-detailing company that cleaned the fleet after every week loses business

[11] (Hirsch, Kaufman and Zelenska 2011)

forcing them to let go two new hires. The minimum wage law did not cause disemployment for the fast-food company, but it did dismemploy workers in other industries. This hypothetical situation shows the flaw in any study that only tracks employment in the exact industry and location that they choose. The disemployment effects may look to be zero, but this is not an accurate reflection of the consequences of the law. Disemployment still takes place, but it is distributed among other businesses and industries.

To summarize the current state of affairs, wages are hotly contested. The literature focuses primarily of employment effects to the detriment of those affected by these laws. Thorough investigation and evaluation of every major minimum wage work by Neumark and Wascher's *Minimum Wages* shows decidedly negative employment effects of minimum wages in spite of papers saying otherwise. Furthermore, these papers showing positive or neutral employment effects are ignoring disemployment elsewhere in the economy. The Hirsch, Kaufman, and Zelenska paper puts us on the right track in examining numerous other "channels of adjustment" firms utilize in order accommodate the higher cost of labor that minimum wage laws impose, but the paper finds some counter-intuitive results which warrant a continued look at these adjustments. All in all, a comprehensive look at negative consequences of minimum wage laws is missing from the literature and is provided here.

3. Unintended Consequences of Minimum Wage Policy Affecting Compensation

Minimum wage induced adjustments that affect employees fall into two categories: compensation adjustments and composition adjustments. In both types of adjustments, the incidence of the change falls upon the employees of the firm. In other words, the employees are bear the cost when these adjustments are made. After a minimum wage hike is passed, firms adapt by cutting costs in a variety of ways: cutting hours, reducing health insurance coverage, reducing on the job training, and transitioning to capital and away from labor. Each of these will be examined in this paper.

A. Reduction of Working Hours

Other than cutting jobs, the simplest way to accommodate the mandate for higher wages is to reduce hours for employees. A survey of 324 New York City full-service dining establishments conducted after the $15 dollar minimum wage was passed found that "75 percent plan to cut hours and 47 percent forecast eliminating some positions entirely in response to the minimum wage increase."[12] Policymakers should expect firms to adjust along these lines post-hike. Card and Krueger famously fail to include total hours worked in their New Jersey, Pennsylvania fast food data. This is one of the many criticisms of their paper. Neumark and Wascher, in separate response paper looking at the same industry and locations used by Card and Krueger, find that "in broad terms the evidence in this paper suggests strongly that the introduction of the minimum wage led to a reduction in the paid working hours of both male and female low wage workers"[13] This adjustment diminishes the power behind any minimum wage hike. If I make more per hour but my labor hours are cut to adjust to that, then I am no better off. That being said, many recent papers have included total hours worked in their data understanding how crucial that is to the credibility of their findings. Using state-level panel data, Zavodny finds a significant negative effect on employment, but insignificant reductions in average hours per worker.[14] Couch and Wittenburg (2001), on the other hand, find total hour elasticities that were negative and 25 to 30 percent larger than those for employment.[15] Furthermore, after a minimum

[12] (NYC Hospitality Alliance 2018)
[13] (Stewart and Swaffield 2008)
[14] (Zavodny 2000)
[15] (Couch and Wittenburg 2001)

wage hike in Seattle, a team of researchers from the University of Washington discovered the following: "Our preferred estimates suggest that the Seattle Minimum Wage Ordinance caused hours worked by low-skilled workers (i.e., those earning under $19 per hour) to fall by 9.4% during the three quarters when the minimum wage was $13 per hour, resulting in a loss of 3.5 million hours worked per calendar quarter. Alternative estimates show the number of low-wage jobs declined by 6.8%, which represents a loss of more than 5,000 jobs."[16] This higher minimum wage resulted in a massive loss of hours worked per quarter and resulted in a sizeable 6.8% loss in low-wage jobs. More work is required in this area of research, but we can confidently name hour reduction as one of the channels through which firms cut costs given a minimum wage hike. Furthermore, it can simply be said that if a firm does not reduce hours or employees, then it has adjusted in one of the other channels.

B. Reduction of Health Insurance

Another way that firms adjust compensation is through a reduction in "fringe benefits." We would expect to see less health insurance coverage and less on the job training. Workers receive compensation in two ways: cash and non-cash. Minimum wage hikes force employers towards higher cash compensation which often leads to a reduction in the non-cash. With non-wage compensation accounting for 25 percent of total compensation[17], policy affecting this area is not trivial. This non-cash reduction is often expressed in a loss of health care coverage. In search of empirical evidence for this expectation, a 2003 paper by Simon and Kaestner used CPS data from 1979-2000 and found no discernable effects of minimum wage laws on "fringe

[16] (Jardim, et al. 2018)
[17] (Pierce 2001)

benefits" including health insurance.[18] However, a 2018 study conducted by Clemens, Kahn, and Meer finds "robust evidence that state level minimum wage changes decreased the likelihood that individuals report having employer-sponsored health insurance. Effects are largest among workers in very low-paying occupations."[19] Clemens, Kahn, and Meer's study is not only more recent, they also use insurance data which samples "roughly 20 times that of the March supplements of the CPS." While past results have been mixed, we can confidently say that this channel of adjustment is not only theoretically sound, but empirically supported.

C. Reduction of On-the-Job Training

Another unintended consequence of minimum wage laws is a loss of human capital accumulation. We typically think of human capital formation happening in schools. We learn to read, write, and solve problems. However, human capital formation also takes place at the workplace in the form of on the job training. This on the job training also falls under the umbrella of "fringe benefits." When a minimum wage law is passed, this on the job training is a common channel of adjustment, and it is easy to illustrate. Training programs, whether for manager positions, or certifications cost money. Businesses not only pay for these programs but typically pay the employee to take them. When labor costs rise, companies cut the frequency or total amount of these programs. Mincer and Leighton, in their paper 1980 entitled "Effect of Minimum Wages on Human Capital Formation," showcase data showing that "minimum wages tend to discourage on the job training…direct effects on job training and the corollary effects on wage growth as estimated are consistently negative and stronger at lower education levels."[20]

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[18] (Simon and Kaestner 2003)
[19] (Clemens, Kahn and Meer 2018)
[20] (Mincer and Leighton 1980)

Hashimoto's 1982 paper also suggests that young workers who manage to remain employed after a minimum wage hike may experience a reduction in training.[21] On the job training is an important avenue for minimum wage workers to move beyond the minimum wage, and it is reduced by it. The negative effects of this reduction are compounded when we examine human capital accumulation's effect on long-term earnings. Neumark and Wascher find that "recent research that studies the question more indirectly finds that teens and youths exposed to higher minimum wages have lower wages and earnings when they are in their late twenties, consistent with reduced skill acquisition."[22] When a minimum wage is higher, a young worker is less likely to receive on the job training which results in more valuable skillsets. This lack of training leads to less long-term earnings. The policy does bump up earnings in the short-term for those who keep their jobs, but in the long term these earnings increases may simply be offset by the lost potential earnings of human capital formation.

D. Poorer Working Conditions

Working conditions are another area where we would expect to see change post-minimum wage policy. The rationale is simple, firms must cut costs to remain profitable after the higher labor costs are imposed, and they do so in ways that affect the working environment. Again, in this case, the incidence of the law is falling on the worker, it is simply in a different form. The cost is to their comfort while at work, and the trade-off is a dollar or two more per hour. Simon and Kaestner tackle this area of adjustment as well in their aforementioned 2003 paper.[23] They find no evidence of lower quality working conditions in industries where the

[21] (Hashimoto 1982)
[22] (Neumark and Wascher 2008)
[23] (Simon and Kaestner 2003)

minimum wage was most binding. This is unsurprising for two reasons. First, they approximate working conditions by tracking on the job accidents. There are certainly many ways to make working conditions worse without causing a hospital visit. Less people on each shift could make work much more physically and mentally taxing without making it dangerous. Less climate control to save on energy costs could make work a more difficult place to be. Delayed upgrades in machinery, technology, and sanitation would also not necessarily show in this data set. The second reason it is unsurprising that Simon and Kaestner did not find negative effects on working conditions is because of the regulatory environment of the United States. The Occupational Safety and Health Administration and their vast array of regulation prevent firms from adjusting in this area. Internationally however, we would expect to see much more adjustment along these lines. Without the oversight businesses face in the United States, minimum wage laws incentivize dangerous cost-cutting measure in less regulated countries. This is something that developing countries ought to be mindful of when examining minimum wage legislation. Regardless, more research could be very helpful in determining the severity of this affect both in the United States and abroad.

This concludes the section on the compensation effects of minimum wages. Minimum wage policy forces firms to adjust in a variety of ways that hurt the cash and non-cash compensation of minimum wage workers. Whether it be less hours, lack of health insurance coverage, less on the job training, worse working conditions, workers often bear significant costs of minimum wage policies. This fact is too often missed by lawmakers and advocates. The purported lack of disemployment effects is not a green light for this legislation. These other consequences must be weighed.

4. Unintended Consequences of Minimum Wage Policy on Worker Composition

The next section of the paper deals with changes in worker composition. Even if we grant a complete lack of disemployment effects, or that the number of employed even increases, minimum wage laws still change who is employed, and this should not be overlooked. This is an underemphasized and exceptionally important consequence of minimum wage laws. The composition effects are the type of unintended consequences that every lawmaker hopes to avoid, and every economist ought to bring to light.

A. Labor to Capital Goods Transition Accelerated

A more common, but still under-analyzed consequence of minimum wage laws is its acceleration of the transition away from labor and towards capital goods. This transition is certainly at the academic forefront of economics and policy. The automation of manufacturing, and eventually trucking and medical procedures has been the subject of many economic papers and news articles. These transitions are natural and have been taking place since the beginning of time. However, minimum wages unnecessarily accelerate the automation of certain roles, ultimately hurting those that the policy aims to help, and shrinking the number of workers earning the minimum wage. A 2018 Forbes article reports that the push for higher wages is the central reason why McDonald's is automating at an accelerated rate.[24] Cashiers will increasingly be replaced by the robots who do not have to be paid. A 2018 Lordon and Neumark study finds that,

> Based on CPS data from 1980-2015, we find that increasing the minimum wage decreases significantly the share of automatable employment held by low-skilled workers, and increases the likelihood that lowskilled workers in automatable jobs become nonemployed or employed in worse jobs. The average effects mask significant heterogeneity by industry and demographic group, including substantive adverse effects for older, low-skilled workers in manufacturing.[25]

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[24] (Speer 2018)
[25] (Lordan and Neumark 2018)

Lordon and Nuemark point out the negative and destructive side of the labor to capital transition. Certainly, this transition is one that will always take place, but accelerating the transition through government intervention has led to the displacement and underemployment of low-skilled workers. It is worth noting that this transition is much less viable for small businesses. Big firms like McDonald's can bear the high initial cost of purchasing and implementing kiosks and other automated technology. Smaller businesses don't have that kind of available capital and will not being able to transition in this way.

The bigger the firm, the more avenues of adjustment available to them. Small businesses have a much more limited array of available channels of adjustment, meaning the consequences of a minimum wage hike on small businesses is more severe. Small businesses cannot automate as easily, cannot reduce benefits or training (because most don't offer it in the first place), and bear a higher social cost of letting employees go. Less channels of adjustment means a higher likelihood that small businesses have to simply take a profitability hit. With many minimum wage employers (like restaurants) already operating at razor thin profit margins, a minimum wage hike could mean the end of the business. Luca and Luca 2018 find that an increase in the minimum wage increases the likelihood of non-5 star restaurants going out of business. Their data show, "a one dollar increase in the minimum wage leads to a 14 percent increase in the likelihood of exit for a 3.5-star restaurant (which is the median rating on Yelp)."[26] Essentially, business that are unable to utilize these channels of adjustment (which are harmful in themselves) are forced to bankruptcy, disemploying more than just those at the business earning

[26] (Luca and Luca 2018)

the minimum wage. Again, these consequences are neglected by the literature and warrant a more serious examination.

B. Surplus of Labor Leads to Discrimination

In the same way that neoclassical theory predicts disemployment effects of minimum wages, textbook theory also indicates that an increase in wages would cause an increase in demand for those jobs. In other words, if the reward is higher for the same work, more workers will demand that job than in the absence of the increase in wage. This causes a surplus of labor which gives employers more options in their hiring process. This is not inherently harmful, but unfortunately, the surplus increases unemployment, allows for discrimination on characteristics other than productivity, and forces employers to discriminate based on skill and productivity.

The almost self-evident result of an increase in the minimum wage is an increase in those who want to find a job but are unable. An increase in the minimum wage entices those who were outside of the labor market to enter into it. This includes people on welfare who formerly found no reason to work. Ceteris parabis, the minimum wage broadens and increases the pool of applicants for each job. While this may be appealing to employers, it automatically increases the amount of frustrated applicants. The social and psychological cost of this is difficult to gauge. However, we can expect that a rise in minimum wage might cause an increase in discouraged workers. Discouraged workers are those who have not looked for a job in the previous four weeks. Surprisingly, discouraged workers do not get counted in federal or state unemployment numbers. There are millions that fall into this category. These are people who have simply given up on finding a job; they have stopped applying. A surplus of labor would increase the amount of frustrated workers who simply can't land a job. Unemployment and crime are soundly linked, so advocates of the minimum wage must consider the trickle down effect of a rise in unemployment and discouraged workers.

C. Discrimination Based on Characteristics Unrelated to Productivity

This surplus of labor also allows businesses to engage in discriminatory hiring practices based on characteristics other than productivity. In a tight labor market where businesses are competing for productive workers, a hiring manager cannot afford to bring his own personal preferences into his hiring considerations. The hiring manager is disincentivized from doing this because he or she will lose a productive worker making the business less profitable. In a labor market where there is a surplus, there are plenty of equally productive workers to choose from. If that is the case, the manager can express racist, sexist, or any other preferences in his hiring process. In a world without minimum wage policy, with less demand for minimum wage jobs, this racist or sexist preference might cost the company the most productive worker. In a surplus of labor situation caused by minimum wage laws, the manager can engage in this discrimination without cost because he or she has more options.

D. Discrimination Against Low Skill Workers

In order to understand the impact of the following composition effects, we must understand the goals of minimum wage policy. These stated goals of minimum wage laws in the United States for the past few decades have been clear: reduce poverty, aid minorities and low-skill workers, increase the earnings of the poorest members of society. Lawmakers hope to distribute more earning power to those at the lower end of the economic spectrum. As seen above, theoretically at least, minimum wage laws seem to be acting counter-productively to these goals. They increase the likelihood that businesses reject workers based on racist, sexist, or other preferences. But this discrimination goes beyond preferences of race or gender. The discrimination caused by minimum wage laws is especially felt by low-skill workers. When a minimum wage law is passed, employers not only fire people, they also tend to move towards higher-skill, older, more qualified workers. This is a reasonable response by employers, and the surplus of labor allows them to do so. Employers cannot be blamed for this. The government has made it illegal to hire someone for $5 an hour when that is perhaps all a certain person's labor is worth. This gets to the heart of a major issue with minimum wage laws. The fact is, many workers do not produce $15 worth of value in an hour. Their work is worth $12, or even $5 dollars an hour. In a world with a lower minimum wage, a business could comfortably hire young, less dependable, less-skilled workers and teach them the value of hard work, and responsibility. In a world with a higher minimum wage, businesses can't afford to take that kind of risk, or bear the cost of a worker who cannot produce work that is worth the artificially high wage. This forces firms to shift towards more skilled, more experienced workers. Jonathan Meer adds more detail to this line of thinking when he asks,

> When wages are set at an artificially high rate, why should an employer take a risk on the single mother who needs the occasional shift off to take her kids to the doctor? The kid from a disadvantaged background who needs some direction on how to treat customers appropriately? Or the recently released felon trying to work his way back into the community? Why should employers bother with them when there are plenty of lower-risk people who are willing to work at those artificially high wages?[27]

Meer points out the theoretical argument for why we would expect to see a shift towards higher skill, more qualified workers filling jobs post-hike. This argument is borne out in the data as well. Neumark and Wascher find that,

> Some of the more recent literature has attempted to identify these substitution effects more directly or has focused more specifically on those individuals whose wage and employment opportunities are most likely to be affected by the minimum wage, and the estimates from this line of research tend to support the notion that employers replace their

[27] (Meer 2019)

> lowest-skilled labor with close substitutes in response to an increase in the wage floor. As a result, minimum wages may harm the least skilled workers more than is suggested by the net disemployment effects estimated in many studies.[28]

Consistent with these empirical findings, Clemens Kahn and Meer discover that "job ads in low-wage occupations are more likely to require a high school diploma following a minimum wage hike, consistent with the evidence of employed workers."[29] In Seattle, this shift away from less-skilled workers is also evidenced in the earnings data. The same University of Washington study mentioned earlier found that "earnings gains were concentrated among more experienced workers, with the less-experienced half of Seattle's baseline low wage workforce showing no significant change."[30] While not the fault of employers, this move away from less skilled, less qualified workers has dire consequences for minorities. The Economic Policy Institute reports that, "Minimum wage workers, and low-wage workers generally, are mostly adults and are also disproportionately women and people of color."[31] Minimum wage workers are disproportionately people of color and women, and this reality is problematic for two reasons. First, disemployment effects, when and if they take place, will affect minorities disproportionately. The wealthy white teenager who is can show up to work every day and has his high school diploma will not be the first to go when jobs cuts are taking place. Unfortunately, the first to be let go will be the black single mom who misses shifts occasionally, or the young hispanic girl who has trouble with English. This consequence of minimum wages must be acknowledged. Secondly, the move towards more highly qualified candidates favors white youths to black youths. John Smith reports in his 2013 paper that,

> When faced with legislated wages that exceed the productivity of some workers, firms will make adjustments in their use of labor. One adjustment is not only to hire fewer

[28] (Neumark and Wascher 2008)
[29] (Clemens, Kahn and Meer 2018)
[30] (Jardim, et al. 2018)
[31] (Zipperer 2019)

> youths but also to seek among them the more highly qualified candidates. It turns out for a number of socioeconomic reasons that white youths, more often than their black counterparts, have higher levels of educational attainment and training. Therefore, a law that discriminates against low-skilled workers can be expected to place a heavier burden on black youths than on white ones.[32]

Deere, Murphy, and Welch (1995), as well as Sabia, Burkhauser, and Hansen (2012) come to similar conclusions in their papers. Again, these consequences are born by those this policy directly aims to help. That is not simply ironic; it is tragic.

E. Delayed Entrance into the Workforce

This minimum wage generated discrimination against low-skill workers in the labor market has long-term consequences. When employers move away from the young and inexperienced to the more qualified, more experienced workers they delay the entrance into the workforce for young people. In doing so, they reduce lifetime incomes for young people, and increase the number of discouraged workers. Charlene Kalenkoski published a 2016 paper that concluded: "While some working youth will benefit from increased current earnings, others will suffer from reduced opportunities and lower lifetime earnings. Delays in labor market entry and work experience will reduce lifetime incomes for youths who are unable to find employment because of the minimum wage."[33] Reduced opportunities for entry for youths, brought about by a surplus of labor, job cuts by firms, and a move to more experienced labor will cost young people greatly in the long-run. The quicker you can enter the workforce, the higher your earning potential will be. By making it more difficult for young people to attain employment, minimum wage laws could very well be doing more harm then good when we compare reduced life-long incomes and the short-term earnings boost for those who were able to find a job. Furthermore,

[32] (Smith 2013)
[33] (Kalenkoski 2016)

the surplus of labor, and an inability for youth to find employment will lead to an increase in discouraged workers.

5. Conclusion

In his famous book *Economics in One Lesson* Henry Hazlitt outlines the task of the good economist: "The bad economist sees only what immediately strikes the eye; the good economist also looks beyond. The bad economist sees only the direct consequences of a proposed course; the good economist looks also at the longer and indirect consequences."[34] This principle is the driving force behind this paper. Economists and lawmakers alike have fallen into the trap of looking only at the short-term, direct effects of minimum wage policies. Much of the motivation for the writing of this paper was observing so many advocates of these policies only cite employment effects as justification. There is much more to the story. This paper attempted to pull back the curtain and fully display the consequences of minimum wage laws for the workers earning them. Those consequences manifested in two ways: workers compensation and the composition of those employed. The paper brought forward the theoretical and empirical evidence for reductions in working hours, health insurance, on-the-job training, and poorer working conditions. Looking at composition, the paper displayed the logical progression of a surplus of labor leading to discrimination in hiring based on personal preferences and skill level. This discrimination disproportionately affects minorities, and ultimately delays entrance into the workforce for many, culminating in lower lifetime earnings. These underexamined negative consequences must be apart of the decisions made in local, state, and federal governments. The urgency of that statement is increased by these affects often directly harming those who the policy aims to help. As previously stated, minimum wage laws have been touted as an income

[34] (Hazlitt 1946)

redistributor, a lifeline for those in poverty, and helpful for the marginalized of our society. Unfortunately, the evidence points toward the policy harming and working counter to those very goals. The literature's preoccupation with employment effects must end if a sound conclusion is to be drawn regarding the efficacy of minimum wage policies. This paper is a step in that direction, but many more must follow.

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