Center of the American Experiment

Minnesota's Think Tank.

# Dialogue on the Minimum Wage


SEN. JOHN MARTY

DAN McELROY

DR. MARK PERRY

MODERATED BY JOHN HINDERAKER


Center of the American Experiment

FORUM SERIES

On September 20, 2016 the Center hosted a Dialogue on the Minimum Wage with Minnesota Senator John Marty, Dan McElroy of Hospitality Minnesota, and Dr. Mark Perry, an economics professor at the University of Michigan's Flint Campus. The lunch of over 300 included 40 students from St. Anthony High School and featured an extended audience question from $15 NOW Minnesota activist Kip Hedges.

**Senator John Marty** has been a member of the Minnesota Senate for 29 years and is currently representing District 66. Senator Marty serves as the chair of the Senate Environment and Energy Committee and the chair of the Environment and Energy Budget Division.


**Dan McElroy** is president and CEO of Hospitality Minnesota and executive vice president of the MN Restaurant Association, the MN Lodging Association and the MN Resort & Campground Association. Mr. McElroy formerly served as Chief of Staff for Governor Tim Pawlenty.

**Dr. Mark Perry** is currently a scholar at American Enterprise Institute (AEI) and a professor of economics at the University of Michigan's Flint Campus. His research areas include financial markets and U.S. and international economics. Dr. Perry is also the creator and editor of the popular economics blog Carpe Diem.

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# Dialogue on the Minimum Wage

SENATOR JOHN MARTY • DAN MCELROY • DR. MARK PERRY

MODERATED BY JOHN HINDERAKER

**John Hinderaker:** Welcome. Our program features three speakers: Sen. John Marty, Dr. Mark Perry, and Dan McElroy.

John Marty has been a member of the Minnesota Senate for 29 years. He serves as chairman of the Senate Environment and Energy Committee and is also a member of the Senate Finance Committee, among others.

Dr. Mark Perry earned his Ph.D. in economics from George Mason University. He teaches at the University of Michigan at Flint, and is a scholar at American Enterprise Institute, where he has written widely on the minimum wage. He will give us an economist's perspective on the issue.

Dan McElroy is president and CEO of Hospitality Minnesota and executive vice president of the Minnesota Restaurant Association, the Minnesota Lodging Association, and the Minnesota Resort and Campground Association. He will offer a practical perspective on what the consequences of a $15-an-hour minimum wage would be.

**John Marty:** I'm really pleased to be with you. This isn't my normal political audience but I'm glad to discuss minimum wage with you.

Minneapolis, as I think the proponents of minimum wage would point out, is where one in four people lives in poverty. Half of African Americans in Minneapolis live in poverty. It's not the daily experience for most of us in this room, but it's a tough one. If you know a single mom with kids who gets bumped out of a home and is couch-hopping, you understand why, for some people, it's a crisis.

Moving to a broader scale, I saw a national poll done 10 or 15 years ago that asked, "Do you agree or disagree with the idea, the principle, that somebody who works full time should have enough of an income that they do not live in poverty?" It was not particularly close, in political terms: 94-percent agreement. I think it was two-percent disagreement, and the rest weren't sure. It was pretty overwhelming.

I think most of us believe that somebody who is working ought to be able to make ends meet. Minimum wage is one way to do that. It's the most obvious way. Yet the current minimum wage, or even $15 an hour, wouldn't get most people there. That's why we talk about the minimum wage.

I have a proposal at the Capitol that would move the minimum wage up to $15 an hour over a five-year period. Basically, I would argue, it would continue what we've been doing the last three years. Some would say it's a big increase, but it's phased in at a gradual amount. If we were to move to $15 an hour now, I would argue it would be a real challenge. Even though the name of it is "$15 Now," the proposed Minneapolis ordinance, the one in Seattle, and the ones everywhere else are not immediate. They are phased in, because proponents recognize it's not something you can change overnight.

Seattle put in place a $15-an-hour phase-in a year or two ago, and I'll read a headline from the *Seattle Times* from this past July, starting with the sub-head: "Seattle's labor market has boomed since the city set its minimum wage on a path to $15 an hour." That sounds like, "Wow, the minimum wage is pushing the market up that way." Another sub-head read, "Much of that growth has nothing to do with the new pay requirement," suggesting maybe the opposite. The overall headline on top of that was, "$15 wage law has little impact on Seattle's thriving labor market, study suggests."

That is what I would argue is probably the reality. It does have impacts. It very definitely has impacts on employment and on wages. *Puget Sound Business Journal*, a half-year or a year after the law took effect, had a headline that read, "Apocalypse Not"—not "Apocalypse Now," but "Apocalypse Not," suggesting the fear of what it was going to do to employment was not the reality of what happened.

There are at least a couple of factors regarding the ways in which minimum wages affect employment. I'm not an economist, but obviously as wages go up – and I think this is the point most of you would make – employers try to find ways to reduce that growing cost, so they try to rely less on labor, try to automate, try to do other things, and that can drive down employment.

An alternative scenario plays out like this: As wages go up, people who are earning more money have more money to spend. Unlike people who have plenty of money, where some of it goes into savings, for many low-income people, 100 percent of that money is spent. That spending often goes to where they work and other places, and it does create jobs.

In the end, there are factors that raise it and lower it. Therefore, I would argue that saying, "Oh boy, we're going to do this, and it's just going to really cut the heck out of jobs, it's going to really hurt low-income people, it's going to increase disparities" is not what history shows.

There was a 70-year study of 22 federal minimum-wage increases from 1938 to 2009. A group called the National Employment Law Project looked at those 22 minimum-wage increases and tried to measure what impact they might have had on overall employment across the country a year after each increase took effect. They measured not just overall employment but employment in a couple of specific industries that people might think would be hardest hit by wage increases: hospitality, leisure, and retail. Because the predominant number of employees in those sectors may be paid minimum wage, they would be the ones most affected by it.

Of those 22 minimum-wage increases over 70 years, private sector employment went up in 15 of the 22 instances. It went down in only seven of them. In the hospitality industry, it went down only four times out of 22; it went up 18 times. In the retail industry, it went down only six times, up 16 times. Five of the eight times where one or more of those sectors went down, we were in the middle of what was an official recession. Therefore, the record would suggest that minimum-wage increases do not cost jobs overall or even in specific sectors where some people might think they do.

I'm not saying minimum-wage increases won't cost jobs in some specific businesses. Absolutely, they will. Many of you are business owners; you know they will. The flyer that was sent out for this event showed a picture of automated machines at McDonald's to take your orders. The reality is, yes, there will be shifts, but the overall picture isn't the apocalypse that some people argue. Proponents certainly are not looking to cause hurt.

There is a sense we have to do this. I would argue that it is a moral issue. It's a crisis that people are living in poverty. We may not feel it because we're not there. In politics, we don't have a very good sense of what a crisis is.

There are plenty of ways we can address this crisis, which is raiding future opportunities throughout Minnesota and hurting the development of children in every sense.

There are more ways than the minimum wage for improving matters. We can do it through earned-income tax credits. My bill actually proposes tripling the working family tax credit in Minnesota. It proposes fully funding the sliding-fee child care program so that people who want to go to work actually have a way to have their children cared for.

There are other ways we can help make sure people who are working are not living in poverty. Most of those other ways actually involve something many of you don't favor, which is government spending. If we don't pay people a living wage, they don't usually fall over dead. They struggle more; some of them may have health challenges; they have other problems. But we end up subsidizing the sub-living wages they are paid. In effect, that is a huge government subsidy to pay for things they maybe should be getting out of their work.

I'm old enough to remember when single family members, working full time and not in what we might call high-skilled jobs, were the sole breadwinners in their families. I remember a hardware store I used to visit as a kid. All the retail clerks were men. Most of them were the sole breadwinners in their families. Gas station service attendants were making enough money not to be rich but to live a comfortable life. We're slipping from that now to the point where you have two people working in retail, and they still can't come close to supporting a child.

If it's not the minimum wage, I'm open to other approaches. My bill would include some of them. I think we have to say, if we care about people who are struggling, we have to do something about their wages, and increasing the minimum wage is one way to do it.

**Mark Perry:** As a native of the Twin Cities, I feel especially fortunate to be here. What is not so fortunate is that we're here debating a topic that has actually been settled science and economics for several hundred years. Generally, the first thing we teach on the first day of Econ 101 is that if you raise the price of a good or service, you will reduce the demand for that good or service, including unskilled workers.

I'm sure everybody here understands perfectly that if the tickets for today's luncheon had been priced at \$60 instead of \$30, there would be fewer people in the audience. Yet we're here today debating whether a similar doubling of the minimum wage, at least in some cities and states, when it goes from \$7.25 to \$15 an hour, would have a similar negative effect on the number of unskilled workers employed. Of course, it would.

Think of it this way: Suppose the government were to impose a \$15,500 annual tax on employers per full-time, unskilled worker. Is there any doubt that level of taxation, \$15,500 per employee, would reduce employment opportunities for unskilled workers? Of course, there is no doubt, and that is the exact same outcome as increasing the minimum wage from \$7.25 to \$15, plus additional payroll taxes on employers for each full-time minimum-wage worker. That would be a disaster, both for unskilled workers and for the employers who hire them.

This is not rocket science. It is simple first-day Econ 101. Given the strong support for the minimum wage among the public, I feel obligated to issue an apology today on behalf of my profession. Economists have obviously failed to educate the public about basic economic principles. A public educated in basic economics would be just as skeptical of minimum-wage laws as they hopefully would be skeptical of proposed legislation that would, for political purposes, attempt to repeal or ignore the law of gravity.

We're not here today because of economics, which is settled science when it comes to the overall negative effects of minimum-wage laws. We're here today because of politics. The economist Thomas Sowell said it best: He said that the first lesson of economics is scarcity. There is never enough of anything to satisfy all who want it. The first lesson of politics, says Sowell, is to ignore the first lesson of economics.

Once we move from the world of economics, which is grounded in a systematic, rigorous framework of analysis and based on economic logic, reason, and theory and into the fantasy world of politics, we are then exposed to the real dangers of perverse public policies divorced from economic reality. In that fantasy world, we suddenly went from a proposal for \$10.10-an-hour minimum wage in 2014 to proposals for a \$15-an-hour minimum wage in recent years. Obama said that \$10.10 was easy to remember, and then we suddenly went to \$15 an hour—almost a 50-percent increase with no justification, other than \$15 is also an easy number to remember.

Here's the critical question that is never answered by minimum-wage advocates: Why ask for \$15 an hour and not \$14 an hour, or \$16, or \$50, or \$500? There is never any explanation like, "We've analyzed labor markets, we've taken into account all relevant factors, and after rigorous mathematical modeling and cost benefit analysis, we've determined that $15 an hour, and not $14.90 or $15.10 is the optimal federal minimum wage." That never happens. Whether it is $10.10 or $15, it is always completely arbitrary and non-scientific and therefore guaranteed to inflict great harm on unskilled workers and the employers who hire them.

Let's talk about the harm that a minimum wage is guaranteed to cause by looking at what the law can't do because of what this type of government price control – and that's what it is, a government price control – cannot do that makes it very bad public policy. There are 15 things that a $15 minimum wage does not and cannot do:

1. It does not raise unskilled workers' productivity or their value to an employer to accompany the 100-percent increase in wages that employers are forced to pay unskilled workers.
2. It does not guarantee that a single new job will be created.
3. It cannot stop employers from reducing the number of low-skilled workers they employ.
4. It cannot stop employers from reducing the number of weekly work hours assigned to employees at the higher wage, which is what has happened in Seattle.
5. It cannot stop employers from hiring fewer unskilled workers in the future following a minimum-wage hike.
6. It cannot stop firms from investing in labor-saving technologies like self-ordering kiosks.
7. It cannot stop firms from decreasing the amount of on-the-job training provided.
8. It cannot stop firms from reducing or eliminating workers' non-monetary fringe benefits.
9. It cannot stop firms from adjusting, to the disadvantage of workers, other non-wage attributes of jobs, including the strictness of work demands, flexibility in scheduling, and upward mobility.
10. It cannot stop firms from discriminating against low-skilled workers and substituting higher-skilled workers. In fact, minimum-wage laws are laws that force employers to discriminate against workers who have low skills.
11. It cannot stop firms from discriminating against minority groups, and that is what has historically been shown to happen following minimum-wage increases.
12. It cannot stop firms from making location and expansion decisions that avoid geographic areas that have high minimum wages. For example, Buffalo Wild Wings recently decided to avoid expansion nationally into cities with $15-an-hour minimum-wage laws, like Seattle.
13. It cannot stop firms from closing down or contracting their operations and eliminating jobs following a minimum-wage law increase.
14. It cannot stop entrepreneurs and potential small-business owners from deciding not to start new businesses or not to expand their current businesses because of the higher labor cost from government-mandated minimum wages.
15. It cannot stop U.S. manufacturing firms from outsourcing production overseas, and it cannot stop service-sector firms from outsourcing call centers overseas following a minimum-wage increase to $15 an hour.

Those 15 outcomes, and there are certainly more, represent the many ways that employers will respond to $15 minimum wages to offset the increase in labor costs mandated by government fiat. All of those responses disadvantage unskilled workers and reduce employment opportunities. I think we can all agree that what we want is for as many Americans as possible to have good jobs—jobs that will pay well and allow workers to live a good life. We can also agree that before you can get a really good job, you first need a job, and those first jobs are almost always entry-level jobs at or near the minimum wage. If we wanted to design a perverse public policy that would minimize employment opportunities for unskilled entry level workers and prevent as many of them as possible from finding their first job—an entry level job that would put them on the path to eventually getting a really good job—we might propose a $15-an-hour minimum-wage law that would guarantee that entry-level jobs would be eliminated. The higher the minimum wage, the more jobs that would be eliminated.

On the other hand, if we wanted to maximize employment opportunities for as many Americans as possible, especially the most vulnerable among us—the unskilled, the immigrants, the poor, and minorities—we would not erect artificial barriers that would deny employment opportunities to those Americans, and we wouldn't be outlawing jobs with minimum-wage laws. Rather, we should allow market-determined wages to prevail, because we know from Econ 101 that market wages maximize employment opportunities while government-mandated price controls are guaranteed to reduce employment opportunities.

Remember that the real minimum wage is always zero, because that is the wage that thousands, possibly millions of workers would receive following a government-mandated $15-an-hour minimum wage, because they would either lose their jobs or fail to find jobs upon trying to enter the labor force. That's a very cruel public policy, and I urge the City of Minneapolis and the citizens of Minneapolis and Minnesota to reject that form of cruelty, a cruelty that would inflict the most harm on the most vulnerable and disadvantaged among us.

**Dan McElroy:** Thank you for the opportunity to share some ideas with you.

There is an old bromide in politics that studies and statistics get attention, and stories get votes or get action. John told some, and I think they are appropriate. I want to tell some others. As John indicated, I lead three trade associations that formed a coalition some 60 years ago to work on behalf of one of Minnesota's most important industries: Hospitality is the third-largest employer. About 11 percent of Minnesota's jobs are in restaurants, hotels, or other tourist facilities. We provide first jobs to about 30 to 40 percent of Minnesotans.

As Dr. Perry said, it is impossible to get one's second job, or a better job, until we've had a first job, and our industry has been a master at first jobs.

Senator Marty challenged me and others who don't support a $15 minimum wage to say what we do support. I support career paths to $15 and beyond. I worry that a $15 minimum wage becomes a $15 maximum wage for some who aren't on a career path to higher earnings. Let me put some detail in that. As I indicated, there are about 9,000 restaurants in Minnesota and about 2,000 other hospitality businesses. We're only five percent of Minnesota's gross domestic product, 11 percent of payroll, and 17 percent of the state's sales tax, but somewhere between 30 and 50 percent of the launching pads of Minnesota's careers.

I don't entirely agree with Mark that increased prices inevitably lead to reduced demand. In our industry, there are some things customers want to see a person about. We don't have to guess at the impact of higher minimum wages. We can thank our friends in Washington and Oregon, particularly, and others, for experimenting so we can learn from their experience. I asked my members what they would need to do, first at a $9.50 minimum wage and then a $15 minimum wage.

The Bureau of Labor Statistics has a tool called the *Quarterly Census of Employment and Wages*, which estimates fairly accurately the number of businesses in each NAICS code, the North American Industrial Classification System Code, and the number of their employees. You do the arithmetic, and you know how many employees exist per location.

In Minnesota, we have a little over 19 employees per restaurant and have had that number for quite some time. Washington State, in the early 2000s before they began to raise their minimum wage above national levels, had about 19 employees per restaurant. They had a nadir two years ago of 14.5 employees per restaurant. They are back to a little over 15. What has happened? John mentioned automation, but it is also a change in concept, and a change in concept that didn't eliminate low-skilled or low-wage jobs. Rather it eliminated the best jobs in the house, which are largely tipped servers and bartenders and delivery drivers.

It is very rare in a restaurant in a high-wage market to see anybody in the kitchen with a knife in their hand to cut an onion or a tomato or any of those things, because they are all prepped now in factories owned by Dole Pineapple and lots of other folks, far away from high-wage markets, and shipped in refrigerated trucks and vacuum-controlled containers and assembled in kitchens. The food is great, but we have taken away two, three, or four training-level jobs. The career path in a kitchen is from customer to busboy to pantry person to prep cook to head prep cook to secondary chef to chef and on and on. If you never have to chop an onion, you probably aren't going to learn the skills that you need to be a prep cook and to make more money. I worry about that.

In hotels, the pathway is often from houseman to housekeeper to assistant to head housekeeper to management to regional management to owner. About 30 percent of the hotels in Minnesota are family owned. Another 30 percent are owned by local companies. If this were a roomful of hoteliers and I asked how many of you started in housekeeping or the front desk, there wouldn't be many hands that didn't go up. And they have been on career paths that I am very excited about. It's hard to launch people on these paths if starting places are too high.

Therefore, I asked my members, "What would you have to do if the minimum wage went first to $9.50 and then to $15?"

This is what they told me: 93 percent said they would raise prices. I want to commend what the City of Seattle did. I don't agree with what they did, but they commissioned the University of Washington to study the impact. A recent report showed that when Seattle's minimum wage went to $12.50, prices went up between five and nine percent in the preceding year. Prices here have gone up about half of that.

There were other things going on with utility prices and other things, but the wage rate was a principal driver, and it has changed the number of people willing to come in and sit down and have a server, waitress, or waiter come and take their order, go to the kitchen, and bring their lunch or dinner back, because of the concern both for time and money.

We just got data from a national research firm called NPD that showed in July 2016 compared to July 2015, lunch counts were down four percent. If this were a room full of restauranteurs they would be gasping, "Oh!" Perhaps a little louder than that, because that's a frightening number. It isn't all related to price, it is related to time and place and a variety of other things, but increasing the cost of the product doesn't help, and it doesn't create more pathways to that long-term success that gets people out of the poverty toward which John Marty and I share an aversion.

Two other things that Minnesotans who were surveyed said: Fifty percent said they cut the number of people in the house, and 22 percent reported they would increase automation. Two years ago, Chili's invested in the first widely used computerized, numerically controlled ovens—a concept we think of in manufacturing. It's now in the kitchen.

They cut their kitchen staff from eight jobs to three, and the quality went up. The food is really good because it is consistent, it is at exact temperatures, it is cut to the fraction of a second, and it is a good product. But it took jobs out of the kitchen—teaching jobs and learning jobs. There were no celebrity chefs that were born celebrity chefs. They learned to cook before they could create, before they could sell, and we have made it harder to do that.

We asked, "Would you close locations if the minimum wage went to $9.50?" Two percent said, "Maybe," and two percent said, "No, I'll just move to Wisconsin." We face similar pressures in Duluth, Red Wing, Stillwater, and Winona, also across the North Dakota and South Dakota interfaces, but a little less so in Iowa because of where cities in Iowa are situated.

Minnesota is one of only seven states that doesn't consider tips to be part of wages for minimum-wage purposes. Our tipped employees are wonderful. They work hard. They are our sales force. We couldn't run great restaurants, particularly full-service restaurants, without them. There are fewer of those in Washington and Oregon, because you don't need tipped employees if you're ordering from a kiosk or ordering at the counter.

We surveyed restaurants across the state and found that in the first quarter of 2015, tipped employees made $22 an hour, on average, in the metro area and $18 an hour in greater Minnesota. That is from Perkins to Manny's. These jobs are pathways to middle-class lifestyles, to owning a home, and to sending kids to college that the state of Minnesota has helped foreclose because they won't let us count tips as wages.

The other issue that we're facing is dramatically increased competition. We're no longer in the business of dining away from home; it's food *prepared* away from home. At lunch, we compete with Super America and Holiday. At dinner with Whole Foods, Fresh Tyme, and increasingly today with Hy-Vee, for many reasons. At the time that competition is increasing, people are busier, they have more concerns about things like gluten-free, hormone-free, cage-free, and all sorts of things; the only thing that isn't free are the changes we are asking restaurants to make.

Therefore, Senator, to answer your question, my alternative to a $15 minimum wage is a pathway to $15 or $18 or $20 or $30 an hour that I think works better in a free enterprise system than does a government-determined price relationship.

**John Marty:** Mark Perry proposed a list of all the things that government cannot do. It can't stop firms from doing this, it can't stop them from doing that. I would say most of those are true. At least one of them is legally not permissible. He said government "cannot stop firms from discriminating against minority groups following an increase in minimum wage." Yes, government can stop that – period. You'd better not be trying. The rest of them: Yes, I concede the point. Government can't force somebody not to outsource, not to try to automate more, and so on.

But why does the 70-year history of what has happened after minimum-wage increases not show that? Frankly, restaurants and all employers are facing more than just minimum-wage increases. They're facing competition. If some workers are getting more pay and they're spending it somewhere, many of those employers are going to decide, "Maybe we should be expanding." It's not that one factor changes everything. The laws of economics, either they're broken or you have to say that with 15 out of the last 22 federal minimum-wage increases, overall, private sector employment went up. In the hospitality industry, I don't disagree with what Dan said about how this is what his members are saying they will do. But the point is, in only four of 22 times did their employment go down the year after a minimum-wage increase, and I think all but one of those was in a recession. That is reality.

I'm not going to argue that government can't stop somebody from down-sizing or can't stop them from this or that, but it can't stop employers from expanding, either. It can't stop them from deciding, "We've got an opportunity here, and we're going to do that."

The other point I want to make is on career paths. I agree, education is wonderful, and on a micro-economic level, I would encourage somebody who is struggling, if they can get more education, if they can advance themselves, if they can get more training, to do so. Many people are trying to keep their heads above water. That's why I use the term crisis. They don't have the money or the time or the resources to get that education. They don't always have the opportunity to do so.

Even if they did, supposing everybody in Minnesota had the equivalent of a four-year degree or advanced degree and everything else, it still wouldn't take care of the problem, as there still would be people changing bedsheets in motels who are not going to be able to make ends meet.

It doesn't change the problem that personal care attendants are making $11 or $12 an hour for something I think we as human beings should consider one of the most valuable jobs we do, taking care of somebody else in need. I'm not sure what the career path should be. I think the advocates for personal care attendants want them to have more training because some of their clients have very sophisticated medical and other needs. We ought to help them do that, but the career path for somebody who wants to care for somebody else shouldn't be, "Well, as soon as you get a little bit more, then you don't have to take care of somebody anymore."

Again, whether you do it through minimum wages or you do it through earned income tax credit or other ways of funding things, one way or another, you either have to say, "I don't care if people are hurting," which I don't think is a good socially responsible thing for us as a community, or we have to do something about it. The minimum wage is the most obvious way.

**Dan McElroy:** One of the nice things about the career paths in the hospitality business is most of them are based on on-the-job training and not on somebody needing to go out and get further formal or paid-for education. The career path I described, from prep cook to line cook to secondary chef to chef: You learn to do that by working for great cooks. Interestingly enough, John mentioned that for people who work in hotels, the market rate for housekeepers, downtown, is now about $13, and if they want to do an extra room they get an over-room rate every day, so the market is helping.

I talked to restaurant operators today and did a little survey. There are almost two market rates right now, a rate between 7 a.m. and 3 p.m., which is about $13, and a rate after 3 p.m., when high school and college kids are available, which is a little less than that. That is happening in an environment where the government rate is $9.50. The actual market rate is higher. When the legislature passed the 2014 rate, thankfully, they listened to some people and included a youth rate for people 17 and under. Minnesota today has an unemployment rate for people between 16 and 19 years old of 7.6 percent. It's one of the lowest in the country. With the exception of North Dakota, the rates in states around us are higher. Wisconsin, for example, is at 13.1 percent, so some things are working.

**Mark Perry**: I'd like to say something about the study that Senator Marty discussed earlier, the one from the National Employment Law Project. *The Washington Post* described it as, "Here is a really, really ridiculously simple way of looking at minimum-wage hikes." Further on they said, "This group has produced possibly the most un-nuanced analysis of the effects of minimum-wage hikes that you will ever see."

What they did was very, very primitive and would never pass any kind of rigorous scrutiny in an economics journal. All they did was look at when the minimum wage went up and then if employment went up or down the next year. Yet employment is almost always going up anyway. What they really should have done is figured out how much more employment might have gone up without the minimum wage. They didn't do that. So that study has basically been dismissed.

When we cover price controls in basic Econ 101, Principles of Micro-Economics, we say government price controls increase the amount of discrimination. Whether it is legal or not, that's just the reality of what happens. Milton Freidman, years ago, called the minimum-wage law the most anti-black law on the books.

Here is an example. When we have price controls, for example, in the form of rent control laws in Manhattan or Berkeley, you have rental prices below the market, so you always have an excess demand. Every time you have an open apartment in New York City that is rent controlled, you have 30 or 40 people applying, making it very easy to discriminate against anybody that you don't like: if they have dogs, if they have children, if they have strange-colored hair, if they have piercings or tattoos. You can get away with it much easier.

In the minimum-wage example, when you raise the wage above the market clearing wage, you're going to have an excess supply of workers. Every time you have an opening, you have 15, 20, or 30 people applying for that job. This again makes it much easier, undetected, to discriminate against any un-favored groups. We know that discrimination is one negative result of price controls.

**John Marty:** A Goldman-Sachs economist recently said that the economic literature typically shows recent U.S. minimum-wage increases as having no effect on employment. The reality is that predictions of such increases over long periods of time killing all the jobs just hasn't happened.

**Mark Perry:** We can't just look at employment effects. We know that they're generally negative, from economic theory and most empirical evidence, I would say. There are other effects besides the number of jobs. There is the number of hours that workers are assigned. We know that the first way that employers would react to a significant increase in their labor cost is to maybe keep the same number of workers but cut everybody's hours.

They also might make other adjustments—in non-wage fringe benefits that they are providing in terms of reduced or free-cost lunches, reduced-cost uniforms, and those kinds of things. Even entry-level workers at McDonald's often have a pretty impressive package of fringe benefits, including educational assistance and some paid holidays. There could be other adjustments besides cutting the number of workers.

**AUDIENCE Q & A**

**Kip Hedges:** I'm with "$15 Now Minnesota," which certainly makes me a minority in this room. As a baggage handler for Northwest and Delta for 27 years, when I got hired, I thought I had died and gone to heaven because it meant that I would have gold-plated benefits—I would be able to send my children to college, I would potentially be able to own a house, and all those things actually did come true.

In the last 10 to 15 years, that simply has vanished. More than half of all airline workers now make under $15 an hour. More than half of all auto workers, transportation workers, and manufacturing workers make under $15 an hour. Part of what I've heard described simply doesn't match up with reality: We're not talking about entry-level jobs; we're talking about an ever-increasing number of all jobs in the United States.

What I saw among my co-workers who will never make more than $13 an hour, is that after working eight hours as baggage handlers they had to go and fuel planes for four hours, they had to work at restaurants on the weekend, and they simply had no time left. They didn't see their children, they didn't see their spouses, and for them, there was an intense and personal crisis.

So I guess my question for either Dan or Mark is, number one, do you believe that there is an economic crisis that has strong racial and gender overtones to it? And if you do think that is true, is there something beyond the magic of the marketplace or career paths that you propose as a solution?

**Mark Perry:** I would say that the history of the world is crystal clear, and that is that free-market economies and free-market capitalism have done more to benefit the average person than any other known anti-poverty program. So, when we think about how to reduce poverty, it's through a market system creating economic opportunities. An example a little bit different than the narrative you just portrayed is that the Census Bureau just came out last week and said median household income went up by 5.2 percent last year, the highest it has ever gone up in a year since they started keeping such statistics in the 1960s. The example you gave might have been more applicable a few years ago, but I think now there are signs that the U.S. economy has been improving, so that's how I would respond to that.

**Dan McElroy:** I spent a number of years as Commissioner of the Department of Employment and Economic Development. I recall having a conversation with then-State Economist Tom Stinson, who said, "Commissioner, I know you're all stressed out about the budget and about the outlook, and you really have to understand it's only a problem between now and 2037." What he was talking about was the retirement of the baby-boomers and the transition from a time of four-, five-, and six-percent workforce growth, to a time of 0.1-percent and zero-percent workforce growth that we will face for quite some time to come. Career paths are real and powerful, and they are not a cop-out.

My association members are teaching things like "English Under the Arches," "Sanitation and Food Safety," and "Introduction to Advanced Cooking," at our expense, because we know that talent is scarce and precious. Consequently, I resent a little bit dismissing the idea that career paths aren't a real tool for increasing income.

I agree, however, with the racial and ethnic overtones. Most of our highly paid but under-accounted-for tipped employees are native English speakers, more women than men. Many of our kitchen employees who are capped at $14, $15, $16 an hour because they don't earn tips and because they're prohibited by Minnesota law from sharing tips are native Spanish-, or Somali-, or other-language speakers. The inequity of how we handle tips continues that racial imbalance.

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