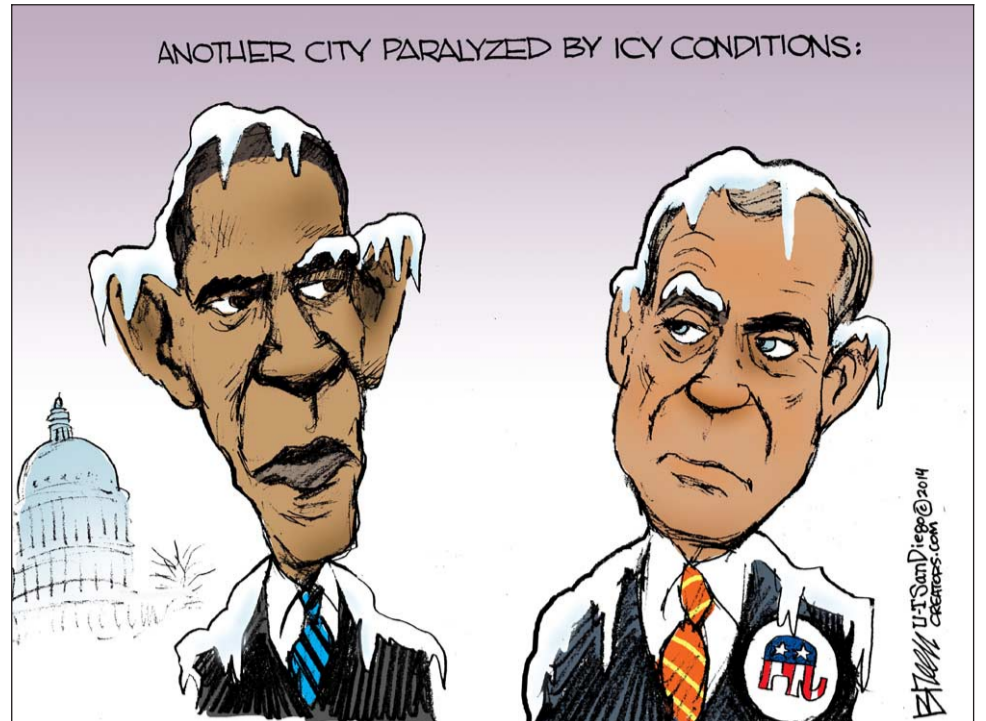


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Hurting the working poor

By **PETER MORICI**
CONTRIBUTING WRITER

President Barack Obama puts his political fortunes above the least among us by badgering Republicans in Congress to raise the minimum wage to \$10.10 an hour.

In 1938, Congress first established the federal minimum and has periodically raised it to accommodate inflation. Currently, at \$7.25 per hour, it appears woefully inadequate to fair-minded Americans. The president feeds this sentiment by carping that it's worth 20 percent less than when Harry Truman was president.

What Obama doesn't tell voters is the minimum is often paid to teenagers bagging groceries and college students on work-study jobs that are really masked financial aid. Moreover, adults earning the lowest wages have sources of income not enjoyed in Truman's days – an earned income tax credit, food stamps and Medicaid.

And employers of domestic workers now fund Social Security pensions and more unemployment insurance – an additional 8 percent in compensation generally not offered in Truman's time.

Economic studies show that periodically raising the minimum wage to keep pace with inflation creates little additional harm – after all, that is not much different than the raises most other Americans receive as prices rise. However, what Obama is proposing is a wholly different matter.

Congress last adjusted the federal standard in 2009. Since, consumer prices are up 9 percent,

but the president is proposing a 39 percent jump. Along with higher taxes and health insurance costs – thanks to Obamacare – most businesses will be compelled to substitute more technology for workers. Drug stores, grocers and McDonald's, for example, can make greater use of computerized check out and order taking – and even impose premium prices on patrons insisting on accessing clerks directly.

McDonald's is already challenged by an inability to raise prices because working class Americans can't afford to pay another dollar for lunch.

Across the board, small value-priced restaurants and hotels will do less business or close, and others in the planning will never open. Ask the folks in the lodging business in SeaTac, Washington, where the city council has jumped the local minimum beyond what the market can reasonably bear.

Obama understands Republicans in Congress, who care about creating jobs and growth, cannot happily approve a huge increase to \$10.10.

Hence, he gets to run around the country fashioning Democratic candidates in the fall elections as champions of justice, and the GOP leaders as throwbacks from the Age of Dickens.

To this economist – like it or not – a minimum wage is a fact of life. Raising it to keep pace with inflation and a bit more to \$8.25 won't much affect employment.

Peter Morici is an economist and professor at the University of Maryland.

A MINIMUM WAGE ON THE RISE?

President's proposal is good politics – until citizens understand its negative effects.

By **WILLIAM POOLE**
CONTRIBUTING WRITER

President Barack Obama predictably repeated his call for an increase in the minimum wage in his State of the Union. The president's story of



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President Barack Obama signs an executive order to set up MyRA after speaking to supporters, local politicians and steelworkers at the USX Irvin Works Jan. 29, in West Mifflin, Pa.

how the owner of Punch Pizza in Minneapolis raised wages for employees like Nick Chute which “eased their financial stress and boosted their morale,” sounded good. That's because the idea of people pocketing more dough is something the American people can get behind. The problem is that a mandated minimum wage actually hurts more people like Nick than it helps.

That's right, despite the claim from the president and even some economists that “increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers,” the evidence tells a different story.

Here is one telling example: Minimum wage increases in American Samoa between 2007 and 2009 had such crushing economic effects that President Obama himself signed a bill postponing increases scheduled for 2010 and 2011.

In fact, there is a massive body of research over more than 70 years that convincingly shows that the minimum wage is bad for the broader economy, results in job loss, and has little to no effect on reducing poverty. Worse, the minimum wage has proven to disproportionately hurt the people it was ostensibly put in place to help: the poor, the low-skilled and the uneducated. Any skeptics can find easily two recent comprehensive surveys of the literature. One is a 2012 survey by Mark Wilson available on the Cato Institute website. Another is a 2006 survey by David Neumark and William Wascherth available on the National Bureau of Economic Research website.

Advocates of an increase in the minimum wage often focus on employees of fast-food restaurants, hotel housekeeping staff and the like. The president and others seem unaware of the fact that nonprofit organizations hire many minimum wage workers. Think nursing homes and inner-city day-care centers. Think group homes for developmentally challenged children and recovering substance abusers. Think Goodwill Industries and Salvation Army.

How are these and many other nonprofits serv-

ing low-income families going to find the revenue to meet a higher minimum wage?

It is not hard to explain to the noneconomist why some studies suggest no effect of the minimum wage on employment. In the past, most changes in the minimum wage have been relatively small. Trying to sort out the effects of the increase from everything else going on requires high-powered statistics, and even then the effects can be buried by a host of other simultaneous disturbances and influences. If you accept as a fact that a minimum wage of, say, \$50.00 per hour would reduce employment, and you accept as a fact that some workers are currently paid \$7.25 per hour, then logic compels you to believe that a small increase in the minimum wage above \$7.25 will have at least a small negative effect on employment.

Besides reducing employment, an inevitable impact of a higher minimum wage is increased prices for consumers – a class of people that includes those minimum wage workers with their new, higher paycheck. A higher wage has to come from somewhere – the tooth fairy won't provide it. A day-care center, for example, will have to raise its fees. A 2004 review of more than 20 minimum wage studies found that a 10 percent increase in the U.S. minimum wage raises food prices by up to 4 percent. However, the president isn't calling for a 10 percent increase, he wants a 39 percent increase. That'll take a bite out of the higher paychecks of minimum-wage workers, and everyone else.

Raising the minimum wage to \$10.10 is good politics, but only if citizens fail to understand its negative effects. Focusing on the minimum wage ignores the policies that really would help the working poor, such as an expansion of the earned income tax credit. The EITC directs assistance to low-income wage earners, whereas some minimum wage earners are, for example, teenagers from wealthy families.

Another possible measure would be to provide federal assistance to help workers move to labor-short states. A wage above \$7.25 is readily available to anyone willing to move to a low-unemployment area such as North Dakota.

Why didn't Obama use his State of the Union address to propose policies that really would help low-income families? As a statesman instead of a politician, he could have provided real leadership on this issue instead of the warmed-over, ineffective, damaging minimum wage proposal.

William Poole is senior fellow at the Cato Institute and Distinguished Scholar in Residence at the University of Delaware. He retired as president and CEO of the Federal Reserve Bank of St. Louis in March 2008.

LETTERS TO THE EDITOR

State's water woes getting worse

We are in the third year of a severe drought and the State Water Project has announced that it doesn't have enough water to provide local water agencies [“West fears a lack of water,” Front Page, Feb. 3].

What have our state leaders been doing about this? The answer is not enough and what is being done is too late.

Poseidon Water has been working for over ten years to build a desalination facility at the Applied Energy Services power station in Huntington Beach. With all of the government regulations and red tape, they are still four or five years away from being able to produce fresh water.

The State Department of Water Resources wants to build a

pipeline under the Sacramento-San Joaquin Delta at an estimated cost of \$14 billion. The pipeline would take water from the Sacramento River upstream of the Delta to protect this environmentally sensitive area, while providing a supply of fresh water. It is seven years in the planning and still estimated to take 10 years after final approval, which may be sometime this year. This assumes that there will be enough water flowing in the Sacramento River, which there will not be this year, with only 12 percent of normal snow



GETTY FILE PHOTO

In this 2007 photo, the Sierra Nevada rise to more than 14,000 feet in elevation behind Owens Lake, near Lone Pine.

in the Sierra Nevada Mountains.

The Los Angeles basin is basically a desert. The only way so many people can live here is because water is provided via the California Aqueduct. Just like the politicians that figured the stock market runs of the past would enable them to pay hefty pensions now and always, they also figure that we will always have snow melt from the Sierra Nevada feeding the California Aqueduct. Not so.

What is needed is a series of desalination plants all along the coast to provide adequate water supplies regardless of the weather. Can California afford to do this? There is more benefit from a stable water supply than from the high-speed train Gov. Jerry Brown wants to build at an estimated \$68 billion. The people of California would be much better served if Gov. Brown and the Legislature would cancel the high-speed rail project and start working on California's real infrastructure problems.

R.L. Figard
Fountain Valley

POLITICAL ARROGANCE

I read columnist Victor Davis Hanson's piece with great interest [“When truth is whatever serves the cause,” Opinion, Feb. 2].

He only uses Democrats who fudge on the truth and leaves out any mentioning of Republicans who do the same.

If Hanson wants to be fair and balanced he should include an equal number of Republicans when writing about objective truth and falsity. I don't think Hanson or the Republicans have any monopoly on the truth.

Gil Thibault
Laguna Beach

Hanson's column reminds me of two old one-liners: “Never let the truth interfere with a good story,” and “The road to Hell is paved with good intentions.”

When politicians deliberately lie to us, they believe they know what's best for us, are more intelligent than we and are seeking to glorify their names.

President Barack Obama fits

all three to a tee.

Rodger Clarke
Santa Ana

ON AGING

I strongly object to columnist Joel Kotkin's assertion that people be encouraged to move out of their homes when they reach some arbitrary age just to provide housing for families with kids [“Aging issues,” Commentary, Feb. 2].

Don't get me wrong – I love kids! I lead them in song every Sunday at church, help them with homework and with their swimming skills at the pool in the summer.

But the time will come soon enough when the boomers will move into assisted-living facilities and their houses go on the market. The idea of driving them from their homes before that time is despicable.

John Denney
Irvine

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