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OPINION

Minimum Wage, Maximum Politics

A mandated 40% increase in labor costs will put people out of work. But, hey, anything to help get out the vote.

A presidential talk on the economy at Northwestern University in Evanston, Ill., Oct. 2.

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By **ANDY PUZDER**

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As the midterm elections approach, President Obama is calling on Congress to increase the federal minimum wage to \$10.10 an hour from \$7.25. “Let’s give America a raise, and make our economy stronger,” he said on Thursday at Northwestern University. That sounds nice, and the hike would give a raise to Americans who already have jobs earning the minimum wage, assuming that they’re still employed after the required raise. Unfortunately, this 40% minimum-wage hike would also reduce employment opportunities for those who need them most.

The middle class and working poor are struggling. While the stock market soared to historic highs, the labor-participation rate dropped in September to 62.7%—the lowest since 1978—according to the Bureau of Labor Statistics. More than six million people, BLS reports, are “not in the labor force” but “want a job now.”

Will a 40% minimum-wage increase improve this picture? No. Let’s examine how it would affect a restaurant franchisee, a typical small business owner attempting to run a profitable enterprise. My company, CKE Restaurants, has more than 200 franchisees running about 2,000 restaurants nationwide.

Our typical franchised restaurant employs 25 people and earns about \$100,000 a year in pretax profit—about 8% of the restaurant’s \$1.2 million annual sales. Our general managers, often also the store owners, are responsible for the success or failure of the business. They manage the employees and are in charge of a million-dollar facility. General managers are responsible for at least 25% of store profits. The other 24 employees are responsible for the remaining 75%, which comes to about \$3,125 an employee. That is a generous estimate, as entry-level employees likely contribute less than their more experienced colleagues.

If minimum-wage crew members working 25 hours a week received a 40% raise, they would earn an additional \$3,705 a year. That is \$580 more than what the employee contributes to the restaurant's profits.

The point is simple: The feds can mandate a higher wage, but some jobs don't produce enough economic value to bear the increase. If government could transform unskilled entry-level positions into middle-income jobs, the Soviet Union would be today's dominant world economy. Spain and Greece would be thriving.

But here's what middle-class business owners, who live in the real world, will do when faced with a 40% increase in labor costs. They will cut jobs and rely more on technology. Such changes are already happening in banks, gas stations, grocery stores, airports and, more recently, restaurants. Almost every restaurant chain in the country from Applebee's to McDonald's is testing or already implementing automated ordering with tablets or kiosks.

The only other option is to raise prices. Yet it would be near-impossible to increase prices enough to offset the wage hike, particularly given today's economic conditions. More important, price increases burden consumers, particularly those with low incomes who are supposed to be helped by a minimum-wage increase.

The better policy would be to encourage the private sector to create more middle-income jobs. North Dakota enjoys the lowest unemployment rate in the country, at 2.8%, thanks to the state's energy boom. The state minimum wage is \$7.25, but entry-level employees typically make \$12 to \$15 an hour. This happened because the state's dynamic economy created a demand for labor and supports increased pricing to offset increased wages.

But if the administration succeeds in persuading Congress to raise the wage, the new law should at least attempt to mitigate these negative economic consequences. A more modest increase would help. So would spacing out the increase over time.

An effective minimum-wage policy would also recognize that there are at least two distinct groups of workers who earn the minimum wage. First, there are breadwinners trying to support a family. This is relatively uncommon; such individuals represent only about 15% of minimum-wage earners, or about 0.3% of all wage and salaried employees, according to the nonpartisan Washington Policy Center.

Then there are young people who need entry-level job experience to get on the ladder of opportunity. Half of people earning at or below minimum wage are under 24 and 24% are teenagers, according to BLS. While a minimum-wage increase would benefit heads of households, who retain their jobs, it would typically price America's youth out of the labor market, particularly America's working-class youth. A sensible minimum-wage policy would exempt teenagers

and students who need these jobs.

Finally, an effective policy would consider geography. Take California: In San Francisco, the unemployment rate was 4.7% in August thanks in large part to the tech boom in nearby Silicon Valley. A mere 80 miles away in Stockton, it was 10.3%. San Francisco's economy can sustain a higher minimum wage, but in Stockton many people need any job they can find. States and cities should be allowed to adjust the minimum wage based on regional economic conditions or local needs.

While a 40% across-the-board increase in the minimum wage may have political appeal, any politician sincerely attempting to help those in need would recognize the negative impact of federal increases and the need for policies that increase economic growth. At the very least, they would recognize the impact such an increase would have on our youth, particularly in regions where unemployment remains alarmingly high.

The failure to address these issues suggests that the administration's motive is political, not compassionate. The president's minimum-wage hike might cost 500,000 jobs, according to Congressional Budget Office estimates. But the pre-election push is mostly about safeguarding the jobs of a smaller group of people: congressional Democrats.

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