



## The Minimum Wage Hinders Texans' Progress

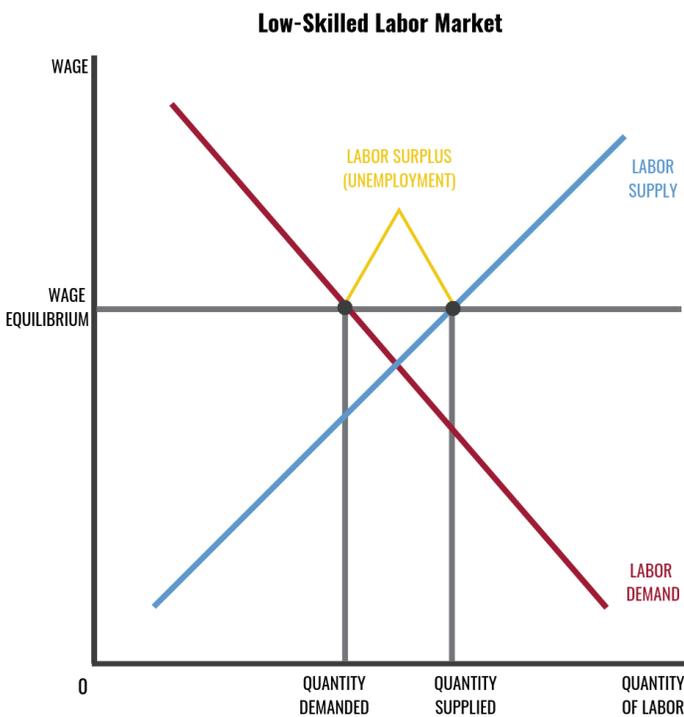
### Testimony before the House Committee on International Relations & Economic Development against HB 194

by Vance Ginn, Ph.D., Director

Chairman Anchia and Members of the Committee:

My name is Dr. Vance Ginn, and I am a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation. I appreciate the opportunity to testify today against raising the state's minimum wage. HB 194 intends to raise it from currently matching the federal minimum wage of \$7.25 per hour to a higher state minimum wage of \$15 per hour. This policy proposal is likely well-intentioned, but research shows that raising this wage harms those it is intended to help most.

A minimum wage is a government-mandated wage control that takes negotiating power away from workers and employers. There is a rare near consensus among economists that [binding price controls distort economic activity](#), but politics often gets in the way of seeing the fallacy of a wage control. As the figure below illustrates, setting a minimum wage floor above a market wage results in unemployment, especially for low-skilled workers. It also slows future job creation and pushes unemployed workers who would take a wage at less than a minimum wage into long periods of unemployment and dependency on family or taxpayers.



The first federal minimum wage in the U.S. was implemented in 1938 under the Fair Labor Standards Act during the Great Depression. An argument was to prevent employers from taking advantage of workers by paying them too low of a wage based on the work provided. Since then, Congress has raised the federal minimum wage 22 times to supposedly reflect changes in the cost of living with the last raise to \$7.25 per hour being signed into law by President George W. Bush. This government-mandated minimum wage makes it illegal to negotiate wages below this level.

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

- There is a common misconception that the labor market is different from other markets where individuals voluntarily negotiate prices. Similar to other price controls, such as maximum petroleum price controls that resulted in long gas lines in the 1970s, wage controls reduce the ability of employers and workers to negotiate a wage that satisfies their desires, and they destroy economic activity. In voluntary exchange, higher worker productivity drives higher wages.

[1.8 million people nationwide](#), or only 2.3 percent of the 80.4 million hourly paid workers, earned a wage at or below the minimum wage in 2017. About 21 percent of them were 16- to 19-year-olds and almost half were 16- to 24-year-olds. Many in these age groups are low-skilled workers who provide supplemental household income, are in college, or are

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starting their career, and do not earn this wage long. If these individuals are forced out of their job by a higher minimum wage, then it makes it harder for them to improve their well-being.

- BLS data for Texas show that [196,000 people statewide](#), or only 3.1 percent of the 6.3 million hourly paid workers, earned a wage at or below the minimum wage in 2017. The [median hourly wage](#) was \$17.39 per hour in Texas that year—more than double the minimum wage. Unfortunately, a breakdown of Texas’ data by age is not readily available, but data are likely similar to nationwide data.
- Research shows that [Texas could lose around one million full-time jobs](#) if the minimum wage is raised to \$15 per hour—more than any other state.
- If employers are not able to adapt to market changes by laying off low-skilled workers, another option to avoid profit losses or shutting down is to raise prices. Higher prices reduce everyone’s buying power, making it especially difficult for those who receive a minimum wage and for those who lose their job, highlighting the arbitrary cost of a government-mandated wage.
- The minimum wage puts more power in the hands of higher-skilled workers who will build and maintain labor-saving products, like automated kiosks, [contributing to an upward redistribution of income](#).

Instead of resorting to the misdirected policy of a government-mandated minimum wage that reduces standards of living in Texas, the Legislature should focus on solving the underlying causes of poverty. Recommendations to improve opportunities for individuals to negotiate higher wages include:

- Removing government barriers to work, like the minimum wage and [excessive occupational licensing](#);
- Increasing skills by improving educational outcomes through [competition among schools](#);
- Expanding investment and job opportunities by passing a [Conservative Texas Budget](#) that increases government spending of taxpayers’ money by no more than population growth plus inflation. Costly taxes could then be eliminated, such as local property taxes—[starting with the one levied by school districts](#)—and the [business franchise tax](#).

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

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



**Vance Ginn, Ph.D.**, is a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based in Austin. He is an expert on economic and fiscal issues and an author of research to let people prosper by removing government barriers in Texas, D.C., and beyond.

## About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)(3) non-profit, non-partisan research institute. The Foundation’s promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

