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RESEARCH SUMMARY

HELPING THE POOR WITHOUT HURTING THE RECOVERY: Why Regulatory Reform Is a Better Alternative to Raising the Minimum Wage

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The president's recent proposal to increase the minimum wage to $9.00 is not the way to help low-income households. Raising the minimum wage is more likely to increase unemployment for some of the least skilled American workers and further impede a historically slow recovery. Research from the Mercatus Center shows that regulatory reform would help low-income families without causing more unemployment or slowing the recovery.

Regulation raises the cost of living for all Americans, but the cost of regulation falls disproportionately on the poorest families. The relevant research and policy proposals to help the poor through regulatory reform are summarized below.

THE MINIMUM WAGE HURTS LOW-INCOME FAMILIES AND SLOWS GROWTH

Mercatus Center senior research fellow and former commissioner of the Bureau of Labor Statistics Keith Hall explains how minimum wages hurt the intended beneficiaries by increasing unemployment.

When employers are compelled to pay higher mandated wages, they will want to hire fewer people and will choose to hire more experienced workers. This hurts low-skilled workers, who suffer the most from the subsequent curtailment of on-the-job training opportunities. Raising the minimum wage is particularly harmful during a slow recovery, when many unskilled workers cannot find employment and many more may need retraining. More than half of all people earning minimum wage are workers under 25, and only 46 percent of these are currently employed.

THE REGRESSIVE COST OF REGULATION

In a new study from the Mercatus Center, Diana Thomas demonstrates that regulation redistributes from poor families to high-income households.

High-income households, who are willing to pay more for higher quality, will want these regulations more than low income households. The majority of these regulatory costs are passed on to households in the form of lower wages and higher costs to consumers. Thomas finds that when regulatory costs are spread across all households, the poorest households will pay up to six to eight times more as a share of income than the wealthiest households, whose preferences the regulation serves.

When regulations force low-income families to pay for *public* risk mitigation, they have less money to pay for *private* risk mitigation, such as moving to a safer neighborhood, by which they could achieve an equal increase in overall safety for one-fifth the cost.

SOLUTIONS

Instead of hurting low-income families by raising the minimum wage, policy makers should find ways to reduce the regressive costs of regulation and raise real incomes for the poor. Whereas a higher minimum wage will reduce employment, reducing the regulatory burden will have a positive impact on small businesses. According to the federal Small Business Administration, the cost of regulation is disproportionately felt by small business and their customers and employees. These businesses are responsible for 65 percent of all job creation.

Avoid Passing Inefficient Regulation

- The most effective way of reducing regulatory costs is by using more and better benefit-cost analysis in evaluating regulations prior to enactment.
- Regulators often fail to perform basic benefit-cost analysis before enacting regulations that can adversely affect the poor. For more detail, see the Mercatus primer "Ready, Fire, Aim!" and "Regulatory Oversight: The Basics of Regulatory Impact Analysis" by Jerry Ellig and Richard Williams.
- Mandating regulatory analysis of all significant rules by statute, and requiring Congress to approve major rules, would force regulators to consider the costs of regulation. See "Blueprint for Regulatory Reform: First, Lay the Cornerstone" by Richard Williams and Sherzod Abdukadirov for more detail.

Eliminate Obsolete Regulations

- In "Regulatory Overload" Andrew Hale, David Borys and Mark Adams demonstrated that too many regulations are often counterproductive. Reducing the number of regulations can actually improve safety and leave low-income households with more resources for private risk mitigation to further enhance their safety.
- Regulators should evaluate regulations once they are enacted to determine if they really achieve their stated goals. See "How Well Do Federal Regulations Actually Work? The Role of Retrospective Review" by Randall Lutter.
- Joshua Hall and Michael Williams evaluate several examples of eliminating obsolete regulations in "A Process for Cleaning Up Federal Regulations." They show how the method used successfully to shut down obsolete Cold War bases in the early 1990s could also be applied to eliminate ineffective regulations.

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Our mission is to generate knowledge and understanding of the institutions that affect the freedom to prosper and to find sustainable solutions that overcome the barriers preventing individuals from living free, prosperous, and peaceful lives.

Founded in 1980, the Mercatus Center is located on George Mason University's Arlington campus.

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