

“Minimum-Wage Rates”

by Milton Friedman

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Congress has just acted to increase unemployment. It did so by raising the legal minimum-wage rate from \$1.25 to \$1.60 an hour, effective in 1968, and extending its coverage. The result will be and must be to add to the ranks of the unemployed.

Does a merchant increase his sales by raising prices? Does higher pay of domestic servants induce more housewives to hire help? The situation is no different for other employers. The higher wage rate decreed by Congress for low-paid workers will raise the cost of the goods that these workers produce—and must discourage sales. It will also induce employers to replace such workers with other workers—either to do the same work or to produce machinery to do the same work or to produce machinery to do the work.

Some workers who already receive wages well above the legal minimum will benefit—because they will face less competition from the unskilled. That is why many unions are strong supporters of higher minimum-wage rates. Some employers and employees in places where wages are already high will benefit because they will face less competition from businessmen who might otherwise invest capital in areas that have large pools of unskilled labor. That is why Northern manufactures and unions, particularly in new England, are the principal sources of political pressure for higher legal minimum-wage rates.

The groups that will be hurt the most are the low-paid and the unskilled. The ones who remain employed will receive higher wage rates, but fewer will be employed. As Prof. James Tobin, who was a member of president Kennedy’s Council of Economic Advisers, recently wrote: “People who lack the capacity to earn a decent living need to be helped, but they will not be helped by minimum-wage laws, trade-union wage pressures or other devices which seek to compel employers to pay them more than their work is worth. The more likely outcome of such regulations is that the intended beneficiaries are not employed at all.”

The loss to the unskilled workers will not be offset by gains to others. Smaller total employment will result in a smaller total output. Hence the community as a whole will be worse off.

Women, teen-agers, Negroes and particularly Negro teen-agers, will be especially hard hit. I am convinced that the minimum-wage law is the most anti-Negro law on our statute books—in its effect not its intent. It is a tragic but undoubted legacy of the past—and one we must try to correct—that on the average Negroes have lower skills than whites. Similarly, teen-agers are less skilled than older workers. Both Negroes and teen-agers are only made worse off by discouraging employers from hiring them. On-the-job training—the main route whereby the unskilled have become skilled—is thus denied them.

The shockingly high rate of unemployment among teen-age Negro boys is largely a result of the present Federal minimum-wage rate. And unemployment will be boosted still higher by the rise just enacted. Before 1956, unemployment among Negro boys aged 14 to 19 was around 8 to 11

per cent, about the same as among white boys. Within two years after the legal minimum was raised from 75 cents to \$1 an hour in 1956, unemployment among Negro boys shot up to 24 per cent and among white boys to 14 per cent. Both figures have remained roughly the same ever since. But I am convinced that, when it becomes effective, the \$1.60 minimum will increase unemployment among Negro boys to 30 per cent or more.

Many well-meaning people favor legal minimum-wage rates in the mistaken belief that they help the poor. These people confuse wage *rates* with wage *income*. It has always been a mystery to me to understand why a youngster is better off unemployed at \$1.60 an hour than employed at \$1.25. Moreover, many workers in low wage brackets are supplementary earners—that is, youngsters who are just getting started or elderly folk who are adding to the main source of family income. I favor governmental measures that are designed to set a floor under *family income*. Legal minimum-wage rates only make this task more difficult.

The rise in the legal minimum-wage rate is a monument to the power of superficial thinking.

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