Insight

Grading “Middle Class Economics”

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The next policy theme of the summer appears to be “middle class economics.” As it turns out, it isn’t a new theme at all. Over the past six years, the president has given a preview of what to expect from progressive policies. There will be a call for an increase in the minimum wage, clean energy project proposals that purport to “create jobs” and a focus on helping small businesses— all hopefully resulting in higher wages for the middle class. There is one major problem with proposing a similar path forward. After six years of those policies, minimum wage hikes end up hurting many of the workers they aim to help, small businesses are suffering, and wage growth is still stagnant. The policies don’t help the middle class economically.

Minimum Wage Hikes Have Proven to Cost Jobs

Many contend that a higher minimum wage would actually mean more money for workers. In effect, that’s only partially true. A minimum wage hike would be beneficial to some low-wage workers – but only if they are able to retain their jobs. And therein lies one of the key problems with a minimum wage hike.

In 2013 High Minimum Wages Cost 747,700 Jobs: In 2013 a $1 increase in the minimum wage was associated with a 1.48 percent increase in the unemployment rate, which amounted to 747,700 jobs. States with minimum wages above the federal standard are lagging behind their counterparts by a full percentage point. The increases will lead to fewer jobs for those who need them the most.

The jobs lost from minimum wage hikes are almost entirely low-wage jobs.
The Last Time the Minimum Wage Was Raised, It Cut Low-Wage Jobs: According to a study by Jeffrey Clemens and Michael Wither from the University of California San Diego, the last time the federal minimum wage increased (from $5.15 to $7.25), employment among those earning less than $7.50 decreased by 8% nationally. That amounted to 1.7 million fewer

jobs. As a result, average monthly income fell by $100. Read more here for fascinating data on its effect on mobility, poverty, and unpaid work.

The data suggests that raising the minimum wage would have a net-negative economic effect for many (if not most) of the low-income workers it seeks to help.

The Most Important Policies of the Obama Era Have Hurt the Middle Class Economically

The Affordable Care Act has reshaped American healthcare and affected the middle class, but not in a positive way financially.

Small businesses have been some of the hardest hit. AAF research found that Obamacare has reduced the wages of small business workers (offices with 20-99 employees) by $22.6 billion annually and cost those small businesses 350,000 jobs.

The ACA has also led to workers' hours being cut. As Nate Silver's 538 site wrote this past January, "the evidence suggests [the Affordable Care Act] has led some employers to limit the hours of workers who were already part-time, effectively giving a pay cut to some of the most vulnerable Americans."

Obamacare isn't the only key recent law that has harmed economic growth. Dodd-Frank, approaching its fifth anniversary, is set to decrease economic growth by nearly $900 billion. That amounts to a drop in economic growth of over $3,300 per working person.

No New Wage Growth

The most consistent disappointment of the monthly jobs report under this administration has been wage growth, or the lack thereof. This has been the Achilles heel of the market for years. Last month saw earnings and hours remain unchanged. If we are looking for policies that will allow small businesses to prosper, then the laws and regulations of the past six years are probably the last direction to turn.

Conclusion

Without a deviation from the President Obama's policies of the past six years, what real evidence is there to expect that the middle class can prosper?