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Duke's Harvey to Newsmax TV: Europe Shows Minimum Wage Destroys Jobs

Tuesday, 25 Feb 2014 07:11 PM
By Dan Weil

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Statistics from the European Union, which includes countries both with and without a minimum wage, prove that such a requirement costs jobs, says Campbell Harvey, an international business professor at Duke University's business school.

"Currently the countries that have the minimum wage, their unemployment is 3 percent higher than the countries that don't," he told John Bachman on "America's Forum" on Newsmax TV.

"And if you drill into the very vulnerable group of younger people, the difference is even more dramatic. In the countries that have the minimum wage in Europe, the youth unemployment rate is 7 percent higher than in the countries without it."

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The implications are clear, Harvey says. "As you raise the minimum wage, unemployment goes up, and it particularly damages the prospects for younger people," he said. "I'm not sure that's a tradeoff we actually want."

It's a matter of price incentives, Harvey says. "If we increase the cost to hire an employee for a corporation, then they're going to hire fewer people. . . . It's economics 101." The situation is analogous to raising the price of cigarettes, which makes people smoke less, he says.

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Meanwhile, the U.S. unemployment rate would be 0.5 percentage point lower if there weren't any extended unemployment benefits, Harvey says. "It's kind of a similar story," he said. "If you pay people not to work, they won't work."

Some unemployment benefits make sense, because they help people match their skills to a suitable job, Harvey says. "But after a while, it's a disincentive to find a job, and the longer you're out of work, you lose your skills," he said.

"We would be much better served to have the longer-term benefits tied in a mandatory way to some sort of retraining where you actually have to do something, you actually have to build your own human capital."

That would hopefully enable people to find a job at least commensurate with their existing skills, Harvey says. "Now, if you're out of work for a long period of time, you lose your skills, and you get into this loop where you just need longer and longer unemployment benefits."

Harvey doesn't like the idea of giving companies tax credits for training programs. "Anytime you start trying to legislate anything like this, you're going to have a problem," he said.

"I would much prefer having a very simple mechanism whereby you can get the extended benefits if you show up at your local community college or your local university and take a course. Enhancement of the human capital through any type of education is better than not."

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