

## The Cost Of Hiring And The Cost Of Firing

In its efforts to “make things more fair,” the government usually causes more harm than good. Anti-discrimination and minimum wage laws may be well-intentioned, but they have unintended consequences of which everyone should be aware. It is easy to be persuaded to vote for someone who promises what seems like a simple solution to a problem, but the positive short-term results of his solution may be more than offset by its negative long-term results.

Virtually every reasonable person agrees that an individual should not be hired or fired solely on the basis of race, gender, or religion. (Of course, some of those same “reasonable people” believe it is somehow acceptable to vote for someone based solely on race, gender, or religion.) But penalizing someone under the law for not being reasonable can, in fact, lead to people actually acting more unreasonably. Here is an example:

Jane owns a business and has a job opening. She has two applicants. One is a thin, young, white man. The other is an obese, middle-aged, black woman. They have equal education and similar work experience. They both seem equally intelligent and capable of performing the job. Each is willing to accept the job at the salary Jane is offering. Which one does Jane hire?

Jane might be tempted to hire the woman, because she may believe she will be a more dependable employee. (Jane may be concerned that the younger man is more likely to call in sick after getting drunk at a Super Bowl party.) But Jane decides to hire the young man. Why?

If Jane hires the young man and he does not work out (for whatever reason), Jane can fire him and she will *never see him again*.

If Jane hires the woman and she does not work out and is fired, Jane may *see her in court*—because she might file a lawsuit claiming discrimination based on gender, race, age, or weight.

The anti-discrimination laws meant to help the minority members therefore actually hurt them—*because the cost of hiring a person also includes the potential cost of firing that person*. Jane’s business cannot risk the expense of fighting a discrimination lawsuit. (She could lose her business, be forced to file bankruptcy, lose her house, and harm the financial future of her family.) So, does Jane risk everything or does she play it safe? *She plays it safe*—and who can blame her (besides leftists who think people should act *against* their own interests for the “good of society”)?

It is worth repeating: *The cost of hiring a person also includes the potential cost of firing that person*. That is why raising the minimum wage hurts the very people who need help the most: unskilled laborers. If John hires an unskilled young adult for an assembly line position, he has to spend time and money to train him for the job. (Regrettably, that sometimes means “training” him to actually show up on time—because he learned that he

could get through high school doing the absolute bare minimum, without being taught responsibility or accountability.)

The cost of that young person is the \$7.25 per hour minimum wage John pays him, *plus* all the other costs John has to absorb as an employer (Social Security taxes, unemployment compensation, uniforms, ObamaCare expenses, etc.), *plus* the expense of job training. If, after a month or two, John realizes the new employee is not going to work out, he will have to fire him and hire a replacement. John has therefore lost not just the wages he paid, he also lost the training expenses and the other overhead costs. John hired the individual knowing those costs were on the line. But he believed it was worth giving the young man a chance to prove his worth.

If the minimum wage is increased to \$10.00 per hour (or to whatever amount is demanded by the “do-gooders”), John’s hiring decision then takes into account the *greater* total costs he now has at risk: higher wages, higher taxes, training expenses, and other costs. That total cost may lead John to decide that the risk of hiring the unskilled youth is too great—so John does not hire him. Instead, John hires someone with work experience who he believes will be more likely to fulfill the job requirements. *In other words, the higher the minimum wage is raised, the less John can afford to “give someone a chance.”*

Raising the minimum wage to “help poor people” does not help them at all because *it makes unskilled labor less likely to be hired in the first place*. In order to help people find jobs, jobs must first be created. What the unskilled young person needs is not to be made *less* desirable by pricing his services too high, but an economy where workers are in short supply and employers need as many of them as they can get. When 100 people line up for one new job, the employer is not going to hire the unskilled 18-year-old. But when 100 people line up for 150 new jobs...

*Don Fredrick*

*September 26, 2013*