

Raising the minimum wage is the right thing to do

By Marty Wolfson | Posted: Sunday, September 1, 2013 5:51 am

Workers need a raise, especially low-wage workers. A person working full time at the current minimum wage of \$7.25 an hour (and, of course, many minimum-wage workers do not work full time) would make \$15,080 per year. This is less than the federal definition of poverty for a family of two of \$15,510 per year.

The value of the minimum wage, in terms of the goods and services it can buy, has fallen since its peak in 1968. If the minimum wage had kept up with inflation since 1968, it would be \$10.74 today.

Bills have been introduced in Congress that would raise the minimum wage to \$10.10 per hour and index it to inflation, which means it would increase in step with prices. The bill would also raise the minimum wage for tipped workers, currently \$2.13 per hour, to 70 percent of the federal minimum wage.

There is strong public support for increasing the minimum wage. Surveys consistently report that approximately 70 percent of respondents support an increase.

Those who oppose raising the minimum wage make two main arguments. First, they argue that minimum-wage workers don't need to support a family because these workers are often teenagers working for extra spending money. Second, they argue that raising the minimum wage would be counter productive: Employers would respond by reducing employment.

In fact, the vast majority of low-wage workers are not teenagers. Of those workers who would be affected by an increase in the minimum wage to \$10.10 an hour, more than 88 percent are at least 20 years old and more than 25 percent are parents. Seventeen million children in the U.S. (23.3 percent of all children) would see at least one parent get a raise.

The argument that employers would reduce employment in response to an increase in the minimum wage is based on the seemingly sensible proposition that employers will try to use less of something (workers) whose price (wages) has increased. Yet path-breaking empirical research has challenged this conclusion.

In 1992, New Jersey raised its minimum wage. Economists David Card and Alan Krueger showed that, in comparison to neighboring Pennsylvania that did not raise its minimum wage, employment in New Jersey did not decline. Much additional research since then has confirmed their results.

The assumption that employers will reduce employment in response to an increase in the minimum wage is based on a simplified model in which "everything else is held constant." Yet, usually, everything else is not constant. In fact, there are at least four areas in which changes are likely.

First, paying workers more can reduce other costs. Workers who are paid more are likely to have higher morale and be more attached to their jobs. Employers would benefit from higher productivity, less turnover and lower training costs.

Second, employers might be forced to reduce profits. If it takes a certain number of workers to do the necessary tasks at a fast-food restaurant, it may not be feasible to substitute machines for their tasks. And the change in costs from an increase in the minimum wage is likely to be small enough so that profits could absorb the increased costs. Research by economists at the University of Massachusetts concluded that fast-food restaurants would see their business costs increase by only about 2.7 percent from an increase to a \$10.50 minimum wage.

Third, employers could raise prices to compensate for higher wage costs. McDonald's could cover half of the cost increase of a \$10.50 minimum wage by raising the price of a Big Mac from \$4 to \$4.05.

Fourth, one of the things that is unlikely to stay the same is the demand for employers' products, which could increase as workers spend their additional income.

Economists at the Economic Policy Institute have calculated that raising the minimum wage to \$10.10 would raise the wages of 30 million workers. Wages for these workers would go up by \$51.5 billion and 140,000 new jobs would be created. In Indiana, 687,000 workers would receive a raise of \$1.1 billion, and 3,000 new jobs would be created.

The bottom line is that raising the minimum wage is economically sound and will improve workers' lives. It is the smart thing to do. It is also the right thing to do.

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