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BUSINESS DAY

Minimum Wage Increase Would Have Mixed Effects, C.B.O. Report Says

By ANNIE LOWREY FEB. 18, 2014

WASHINGTON — A popular Democratic proposal to raise the minimum wage to \$10.10 an hour, championed by President Obama, could reduce total employment by 500,000 workers by the second half of 2016. But it would also lift 900,000 families out of poverty and increase the incomes of 16.5 million low-wage workers in an average week.

That is the mixed conclusion of an assessment on how raising the minimum wage would affect incomes, employment and the federal budget. The report was released on Tuesday by the nonpartisan Congressional Budget Office, whose views often have a powerful influence on the fate of legislation.

The nuanced analysis provided instant fuel for both supporters and critics of raising the federal minimum wage, a policy heavily favored by Democrats but viewed skeptically by Republicans in Congress.

Republicans contended the policy would be a job-killer, while Democrats asserted it would help alleviate poverty. Economists said both

might be right.

And the White House, in an unusual twist, openly disputed the budget office's math.

Jason Furman, the chairman of the White House's Council of Economic Advisers, said that the office's estimate of the potential lost jobs might be too high. In a call with reporters, Mr. Furman said that finding no jobs effect at all would be a "perfectly reasonable estimate."

The analysis does not reflect "the consensus view of economists," he said. "Sometimes, you have to have respectful disagreement."

But the report was embraced by leading Republicans, who have opposed the legislation despite its widespread popularity in public opinion polls. "Raising the minimum wage could destroy as many as one million jobs, a devastating blow to the very people that need help most in this economy," said Senator Mitch McConnell of Kentucky, the minority leader. "If and when Democrats try to push this irresponsible proposal, they should be prepared to explain why up to a million Americans should be kept from having a job."

Democratic lawmakers and liberal groups joined the White House in challenging that view. "I haven't seen Republicans this excited about something that bucked the trend in their favor since the last poll showing Mitt Romney was about to be elected president," said Brad Woodhouse, the president of Americans United for Change, a liberal advocacy group. "But sorry to rain on their parade — one report does not a trend make."

The budget office found that lifting the federal minimum wage, currently \$7.25 an hour, would have a complicated effect on the labor market, acting as a boon and a burden for businesses and workers.

Over all, the budget office estimated that lifting the minimum wage to \$10.10 and indexing it to inflation would reduce total employment by about 0.3 percent, or 500,000 workers. But it cautioned that the estimate was imprecise, with the job losses likely to fall in a range from practically nothing to one million.

The proposal would result in winners and losers among the low-wage

workers it would target, the report found. Some businesses, squeezed between increased costs and the inability to raise prices or sell more goods, would hire fewer low-wage workers because of a higher minimum wage, the report said.

But increasing the minimum wage would bolster the earnings of about 16.5 million workers: providing \$5 billion a year more for families living in poverty, \$12 billion a year more for families earning from one to three times the poverty threshold.

Several top labor economists said on Tuesday that the budget office was overstating the proposal's effect on the job market. Lawrence Katz of Harvard, for instance, said that the budget office had used "a lot of off-the-shelf estimates" of the jobs effect, and that if it had emphasized findings from higher-quality studies, it would have found a smaller or negligible impact on total employment.

More conservative economists said that the profession had long viewed raising the minimum wage, like any increase in price, as having an effect on the demand for jobs.

"The Congressional Budget Office confirms the president proposes an unprecedented increase in the minimum wage that will cost hundreds of thousands of jobs," said James Sherk, who analyzes the labor markets for the Heritage Foundation, a right-of-center research group.

Liberal economists said that quibbling over the jobs numbers neglected a central finding in the report: that many workers would benefit from an increase in income.

"The C.B.O. chose a higher number than I think reflects the best work, but they're not way off the reservation," said Jared Bernstein, a former Obama administration economist now at the Center on Budget and Policy Priorities. "Even if they're right, the beneficiaries far, far outweigh the people who are hurt by this."

The budget office analyzed two proposals in its report. The first would increase the minimum wage to \$10.10 by mid-2016 and would tie it to the Consumer Price Index, so that it would increase with inflation over time. It

would also increase the minimum wage for workers who receive tips for services.

The second proposal would increase the minimum wage to \$9, without any indexing for inflation. That would have much smaller effects, the budget office found. It would reduce employment by 100,000 workers by the second half of 2016, and push about 300,000 people above the poverty line.

The higher minimum wage would reduce employment in two main ways, the budget office report said. Businesses facing higher labor costs would raise prices, passing those higher costs on to their customers. That would lead their customers to cut back on their purchases, meaning that businesses would need fewer workers.

Raising the minimum wage would also make hiring low-wage workers more expensive relative to other investments, like new machinery. Businesses might then reduce their use of low-wage workers and shift their spending toward other things, like automated systems.

But a higher minimum wage would offset at least part, if not all, of that effect by helping increase spending by lower income workers throughout the economy.

Several Democratic lawmakers said that the budget office's findings only underscored the need for the \$10.10 minimum wage to pass. "The C.B.O. made it absolutely clear: raising the minimum wage would lift almost one million Americans out of poverty, increase the pay of low-income workers by \$31 billion and help build an economy that works for everyone," said Representative Nancy Pelosi of California, the minority leader.

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