



SUNDAYREVIEW | EDITORIAL

The Case for a Higher Minimum Wage

By THE EDITORIAL BOARD FEB. 8, 2014

The political posturing over raising the minimum wage sometimes obscures the huge and growing number of low-wage workers it would affect. An estimated 27.8 million people would earn more money under the Democratic proposal to lift the hourly minimum from \$7.25 today to \$10.10 by 2016. And most of them do not fit the low-wage stereotype of a teenager with a summer job. Their average age is 35; most work full time; more than one-fourth are parents; and, on average, they earn half of their families' total income.

None of that, however, has softened the hearts of opponents, including congressional Republicans and low-wage employers, notably restaurant owners and executives.

This is not a new debate. The minimum wage is a battlefield in a larger political fight between Democrats and Republicans — dating back to the New Deal legislation that instituted the first minimum wage in 1938 — over government's role in the economy, over raw versus regulated capitalism, over corporate power versus public needs.

But the results of the wage debate are clear. Decades of research, facts and evidence show that increasing the minimum wage is vital to the economic security of tens of millions of Americans, and would be good for the weak economy. As Congress begins its own debate, here are answers to some basic questions about the need for an increase.

WHAT'S THE POINT OF THE MINIMUM WAGE? Most people

think of the minimum wage as the lowest legal hourly pay. That's true, but it is really much more than that. As defined in the name of the law that established it — the Fair Labor Standards Act of 1938 — the minimum wage is a fundamental labor standard designed to protect workers, just as child labor laws and overtime pay rules do. Labor standards, like environmental standards and investor protections, are essential to a functional economy. Properly set and enforced, these standards check exploitation, pollution and speculation. In the process, they promote broad and rising prosperity, as well as public confidence.

The minimum wage is specifically intended to take aim at the inherent imbalance in power between employers and low-wage workers that can push wages down to poverty levels. An appropriate wage floor set by Congress effectively substitutes for the bargaining power that low-wage workers lack. When low-end wages rise, poverty and inequality are reduced. But that doesn't mean the minimum wage is a government program to provide welfare, as critics sometimes imply in an attempt to link it to unpopular policies. An hourly minimum of \$10.10, for example, as Democrats have proposed, would reduce the number of people living in poverty by 4.6 million, according to widely accepted research, without requiring the government to tax, borrow or spend.

IS THERE AN ALTERNATIVE? No. Other programs, including food stamps, Medicaid and the earned-income tax credit, also increase the meager resources of low-wage workers, but they do not provide bargaining power to claim a better wage. In fact, they can drive wages down, because employers who pay poorly factor the government assistance into their wage scales. This is especially true of the earned-income tax credit, a taxpayer-provided wage subsidy that helps lift the income of working families above the poverty line.

Conservatives often call for increases to the E.I.T.C. instead of a higher minimum wage, saying that a higher minimum acts as an unfair and unwise tax on low-wage employers. That's a stretch, especially in light of rising corporate profits even as pay has dwindled. It also ignores how

the tax credit increases the supply of low-wage labor by encouraging more people to work, holding down the cost of labor for employers. By one estimate, increasing the tax credit by 10 percent reduces the wages of high-school educated workers by 2 percent.

There are good reasons to expand the tax credit for childless workers, as President Obama recently proposed. It is a successful antipoverty program and a capstone in the conservative agenda to emphasize work over welfare. But an expanded E.I.T.C. is no reason to stint on raising the minimum wage — just the opposite. A higher minimum wage could help offset the wage-depressing effect of a bolstered E.I.T.C., and would ensure that both taxpayers and employers do their part to make work pay.

HOW HIGH SHOULD IT BE? There's no perfect way to set the minimum wage, but the most important benchmarks — purchasing power, wage growth and productivity growth — demonstrate that the current \$7.25 an hour is far too low. They also show that the proposed increase to \$10.10 by 2016 is too modest.

The peak year for the minimum wage was 1968, when its purchasing power was nearly \$9.40 in 2013 dollars, as shown in the accompanying chart. Since then, the erosion caused by inflation has obviously overwhelmed the increases by Congress. Even a boost to \$10.10 an hour by 2016 (also adjusted to 2013 dollars) would lift the minimum to just above its real value in 1968. So while it is better than no increase, it is hardly a raise.

The situation is worse when the minimum wage is compared with the average wages of typical American workers, the ones with production and nonsupervisory jobs in the private sector. From the mid-1960s to the early 1980s, when one full-time, full-year minimum wage job could keep a family of two above the poverty line, the minimum equaled about half of the average wage. Today, it has fallen to one-third; to restore it to half would require nearly \$11 an hour, a better goal than \$10.10.

The problem is that the average wage, recently \$20.39 an hour, has also stagnated over the past several decades, despite higher overall

education levels for typical workers and despite big increases in labor productivity. People are working harder and churning out more goods and services, but there's no sign of that in their paychecks. If the average wage had kept pace with those productivity gains, it would be about \$36 an hour today, and the minimum wage, at half the average, would be about \$18.

That is not to suggest that the hourly minimum wage could be catapulted from \$7.25 to \$18. A minimum of \$18 would be untenable with the average hovering in the low \$20s. But it does confirm that impersonal market forces are not the only, or even the primary, reason for widespread wage stagnation. Flawed policies and changing corporate norms are also to blame, because they have allowed the benefits of productivity gains to flow increasingly to profits, shareholder returns and executive pay, instead of workers' wages.

DOES IT KILL JOBS? The minimum wage is one of the most thoroughly researched issues in economics. Studies in the last 20 years have been especially informative, as economists have been able to compare states that raised the wage above the federal level with those that did not.

The weight of the evidence shows that increases in the minimum wage have lifted pay without hurting employment, a point that was driven home in a recent letter to Mr. Obama and congressional leaders, signed by more than 600 economists, among them Nobel laureates and past presidents of the American Economic Association.

That economic conclusion dovetails with a recent comprehensive study, which found that minimum wage increases resulted in "strong earnings effects" — that is, higher pay — "and no employment effects" — that is, zero job loss.

Evidence, however, does not stop conservatives from making the argument that by raising the cost of labor, a higher minimum wage will hurt businesses, leading them to cut jobs and harming the low-wage workers it is intended to help. Alternatively, they argue it will hurt consumers by pushing up prices precipitously. Those arguments are

simplistic. Research and experience show that employers do not automatically cope with a higher minimum wage by laying off workers or not hiring new ones. Instead, they pay up out of savings from reduced labor turnover, by slower wage increases higher up the scale, modest price increases or other adjustments.

Which brings the debate over raising the minimum wage full circle. The real argument against it is political, not economic. Republican opposition will likely keep any future increase in the minimum wage below a level that would constitute a firm wage floor, though an increase to \$10.10 an hour would help tens of millions of workers. It also would help the economy by supporting consumer spending that in turn supports job growth. It is not a cure-all; it is not bold or innovative. But it is on the legislative agenda, and it deserves to pass.

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