Increasing the minimum wage: not perfect, but a useful step

Saul D. Hoffman 5:34 p.m. EDT March 22, 2014

One of the first pieces of business in the 2014 Delaware legislature was a bill to increase the state minimum wage. The law, which was passed by the House and Senate and signed by Gov. Markell, increases the minimum in Delaware by 50 cents to $7.75 on June 1 and by another 50 cents a year later.

The federal minimum, however, is still $7.25, where it has been since July 2009. President Obama has proposed increasing the minimum to $10.10 and the Miller-Harkins bill now before Congress does that in three annual steps. The bill also increases the minimum wage for restaurant workers earning tips from $2.13, a figure that has been constant for two decades, to 70 percent of the federal minimum. Finally, it calls for the minimum wage to increase annually with inflation, just like Social Security benefits.

As always, there has been push-back from Republicans in Congress and from business-financed lobbying groups like the Employment Policy Institute, which recently used McCarthy-like tactics to smear six of the more than 600 economists who had signed a petition in support of an increase in the minimum wage.

The reason these 600 economists, including six Nobel Prize winners, signed the petition is simple: New research shows convincingly that a moderate increase in the minimum wage does not reduce employment opportunities for low-wage workers. It's true that Econ101 tells us that raising the price of something typically discourages its use, whether it is gasoline or labor. But labor economists now know this analysis is too simple to explain the operation of low-wage labor markets, which are characterized by very high labor turnover and other complicating factors.

One well-known study compared employment across geographically-adjacent counties that straddled state lines and where one state had a higher minimum wage than the other. It found no evidence of a negative effect on employment in the states with the higher minimum.

My own published research examined employment rate changes associated with the 2009 increase in the federal minimum wage from $6.55 to $7.25. Because 20 states already had a state minimum wage higher than the new federal minimum, the increase in the federal minimum wage boosted the minimum wage in some states, but not others.
This allowed me to examine the impact of the minimum wage on employment by comparing employment changes in the states where the minimum wage went up relative to the changes in states where the minimum wage remained constant. I found no evidence of a negative effect on the employment of teens and adult workers with less than a high school degree—two groups most likely to be affected if there is a negative effect.

In another project, I discovered that well-known minimum wage research by economists Joseph Sabia, Richard Burkhauser and Benjamin Hansen, which found much larger negative employment effects than any other study, was flat-out wrong. Their research, which focused on New York's 2004 increase, relied on a sample that was too small and turned out to be completely unrepresentative. When I redid the study with better, more representative data, I found no negative employment effects at all on the same young and less-educated workers that the original research focused on. Despite its obvious error, the study is still widely cited by conservative think-tanks and columnists as the basis for many of the direst predictions about the negative effects of an increase in the minimum wage.

Some critics of the minimum wage argue it is an ineffective way to assist low-income families. In the long-ago era of the breadwinner/homemaker family, the link between the low wage of a worker and the low income of a family was very direct. But now, with multiple workers per family, including teens, that link is inevitably less direct. As a result, some minimum-wage workers are, for example, part of middle-income families.

This criticism does have some validity. But it would be more compelling if these critics also offered specific alternative policies to assist low-wage workers, rather than a reason not to do anything. An increase in the minimum wage is best understood as one of a set of interrelated policies to assist low-wage workers, many of whom are still suffering from the after-effects of the recession.

Simultaneous reform of the earned income tax credit would be a hugely beneficial complementary policy. The EITC is a highly-regarded federal program that provides income to working families through the tax system. Some states, including Delaware, have add-on EITC programs.

For the Federal EITC, an increase in benefits for single persons without children has been proposed. These individuals currently get almost no assistance from the EITC or almost any other program. In Delaware, the obvious reforms are two I have noted in previous columns: Make the state EITC fully refundable, like almost every other state that has its own EITC program, and include the eligible income of both working adults in a two-parent family. Both of these changes would help the neediest working families among those receiving the EITC.

An increase in the minimum wage is not a panacea for the tough situation of low-wage workers, but it is a reasonable and easily defended step in the right direction. The proposed $10.10 level strikes an appropriate balance between the well-being of low-income working families and the financial stability of small businesses and other employers of low-wage workers.

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