EconoFact Chats: Does Raising the Minimum Wage Help Low-income Workers?

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.EconoFact.org.

Michael Klein:

At a time when there is a renewed focus on inequality, one policy that has gotten a lot of attention is raising the minimum wage. Some people argue that this would not only increase incomes for those at the bottom of the wage scale, but its effects would ripple up to those already making more than the new minimum, but a standard economic argument is that raising the price of something lowers the demand for it. And in this case, a higher minimum wage would cut employment among those it is trying to help. Ultimately, we need to consider what the data tells us, but here too, there are complications since economists are not typically afforded clean social experiments that take into account other factors that could confound results. To discuss these issues, I'm very pleased to be speaking today with Professor Jonathan Meer, with Texas A&M University. Jonathan's research spans many areas of economics, among them, the effects of raising the minimum wage. And he's published a number of EconoFact memos on this topic. Jonathan, welcome to EconoFact Chats.

Jonathan Meer:

Thanks for having me, Michael.

Michael Klein:

Jonathan, when we take inflation into account, the $7.25 per hour, current federal minimum wage means something very different than what $7.25 Per hour would have meant 20 or 30 years ago. What's happened to the real value of the federal minimum wage? That is, what the minimum wage would be when we account for inflation.

Jonathan Meer:

So the federal minimum wage adjusting for inflation using the PCE deflator, which is widely recognized as the most accurate way to do so ...

Michael Klein:

That's personal consumption expenditures.

Jonathan Meer:

Personal consumption expenditures, it hits peak in 1968 at $1.60 per hour, which would be about $9.20 an hour today. So more than the current $7.25, but still far below the proposals of $15 an hour.

Michael Klein:

Now, that's the federal minimum wage, but state and city governments can also set minimum wages. Is there in fact, Jonathan, a patchwork of minimum wage rates across the country?

Jonathan Meer:

That's correct. So, 29 States and the District of Columbia currently have minimum wages above the federal level, and 53 cities and counties have their own minimums up from just five in 2012.

Michael Klein:

And the cost of living is very different in New York or in San Francisco than it is in Baton Rouge or Little Rock. A federal minimum wage would not take this into account, but would set a floor for any state minimum wage, right?

Jonathan Meer:

Yes. And that's a really important point that I think is often forgotten by the policy-making class who tend to live in high cost cities where $15 an hour may not be that far from the prevailing market wage, but in 2018, the median hourly wage was below $15 in 19 states. And even in high-wage New York and California, half of hourly workers outside of metropolitan areas, outside of cities, earn less than $15 an hour. Those kinds of increases are really hard to swallow, especially after the pandemic has already reduced demand for the kinds of services that are provided by low wage workers and also reduced their productivity because of the need to distance and undertake more cleaning. I'm particularly concerned that noncompliance will become common, which takes those people out of the protections of the legal job market and the coverage of programs like unemployment insurance and social security.

Michael Klein:

Or even OSHA and workplace safety.

Jonathan Meer:

Absolutely.

Michael Klein:

So you said the median, that is the wage in the middle, is less than $15 an hour. That means that in a lot of places in the country, the median workers are living on less than $15 per hour. And presumably, that's not a poverty wage in those places.

Jonathan Meer:

That's right. Cost of living varies significantly around the country.

Michael Klein:

I remember when I was in my very first job, when I was working at a Burger King when I was 16, I was not paid the minimum wage because of my age. And then, a year or two later, I had another job in high school. I moved up, I was now a bus boy at a restaurant, but I noticed the wait staff was not paid the minimum wage because of most of their income came from tips. Jonathan, these days, who's excluded from being paid the state or the federal minimum wage?

Jonathan Meer:

So some states like California and Washington have eliminated the tip credit, which previously allowed workers to be paid a sub minimum wage, a lower wage, if the balance was made up by tips. Now it really, interestingly after Maine eliminated its tip credit, that is made waiters and busboys, so on, subject to the same minimum wage as other workers, restaurant workers pushed a law to bring back that tip credit, lowering their own minimum wage because they felt like their actual wages would fall in the face of a higher minimum wage. Now, another group that's eligible for a lower minimum wage is disabled workers, though my sense is that in practice, it doesn't bind on that many actual businesses because the paperwork involved in compliance is just

too burdensome, but organizations that help the disabled are able to employ them at these lower wages. And to be clear, these are usually people who wouldn't be employable at prevailing wages, but this job gives them a sense of purpose.

Michael Klein:

So, the arguments that are made for the minimum wage are typically not made for people like myself when I was a middle-class teenager and when I worked at Burger King or when I worked as a bus boy, but mainly it's made for helping those who are living in poverty. You have an EconoFact memo on who benefits from the higher minimum wage. Could you discuss the results that you presented in that memo?

Jonathan Meer:

So, most workers who are paid at or even near the minimum wage tend to be young. In fact, fully half of minimum wage workers are under the age of 25 and half of those are currently enrolled in school. Just one in six is an adult with children. So unsurprisingly, those minimum wage workers don't tend to live in impoverished households. Half are in households earning more than $50,000 a year. And more than 5% actually live in households making over $200,000 a year. As far as anti-poverty policy goes, the minimum wage is just not well targeted at the people we want to be helping. And this is especially worrisome if we think about labor, labor substitution, where employers switched to different types of employees, more likely to have a high school or college degree or less likely to have a criminal record, for instance, in the face of mandatory higher wages.

Michael Klein:

Well, what about the argument of the ripple effects that I mentioned earlier, that if you raise the minimum wage to say $15 an hour, there would not be wage compression, but the wages of those who are currently making even more than $15 an hour, their wages would rise as well. Do we have any evidence on that?

Jonathan Meer:

There is some evidence that minimum wage increases push up wages just above the minimum wage, though the effects fade out very quickly at higher levels of the distribution. We really shouldn't expect to see much of an effect on people earning more than a couple dollars above the new level. There is a fair amount of compression, even if there is some movement above the minimum wage.

Michael Klein:

So the compression might not be right at the edge of where the minimum wage has moved, but within a few dollars of that, we would see more compression.

Jonathan Meer:

That's right.

Michael Klein:

And when we talk about raising the minimum wage, many people immediately think of the food service industries. Is that a correct characterization of who is going to be effected by a higher minimum wage?

Jonathan Meer:

Well, that's right. It's mostly leisure and hospitality. So food services and other similar industries, followed by a retail trade, along with some low wage health services workers, but all industries have some low wage workers working in them.

Michael Klein:

Jonathan, there's a lot of research on whether raising the minimum wage leads to job losses. As I mentioned earlier, that's a standard economic argument. Is there evidence that in fact this happens and what does the literature say about this?

Jonathan Meer:

Well, there's definitely quite a bit of literature on the minimum wage and the preponderance of that literature shows negative effects on employment. It's misleading to claim that it's a 50/50 split or that it's totally muddled, though there is work that does not find negative effects.

Michael Klein:

One of the most famous papers about this one that caused quite a stir in the economics profession is one by David Card and the late Alan Krueger. They looked at an episode where in 1992, New Jersey raised its minimum wage by 80 cents per hour, and in Pennsylvania, that didn't happen. And they looked at fast food restaurants very close to the New Jersey/Pennsylvania border. And they found that there wasn't a negative effect on employment in New Jersey among the fast food restaurants. In fact, if anything, they said there might've even been a positive effect. What's your take on that particular study? The one that really gained a lot of attention.

Jonathan Meer:

So, Card and Krueger's famous paper is not only three decades old, it was a small sample, very short run telephone survey of an unusual situation in which a minimum wage change was well anticipated, but there were some political issues around its actual implementation. And it's something of an outlier in the literature in terms of its magnitude. We really shouldn't be pointing to it as a strong piece of evidence on this question.

Michael Klein:

As you point out in another EconoFact memo, there are a lot of broader impacts of the minimum wage and having a job is not just getting paid a wage, but it's also benefits, how hard you have to work, all those kinds of things as well. So jobs are multi-dimensional. What do you find in terms of the effect of changing minimum wages on other aspects of jobs besides just employment?

Jonathan Meer:

So, that's a really important point because as you said, a job is much more than just whether or not you have it and how many dollars it pays. It's unimaginative to consider the job that way. And it should be clear that actually reducing head count is likely to be among the last things that an employer is going to do. One obvious change to make is the number of hours worked, which other researchers have found is more responsive to minimum wage increases than job counts. But as you mentioned, other benefits like health insurance, shift stability and regularity, and even just the pleasantness of the job can change in the face of higher wages. So you referenced my work with Lisa Conn of Rochester and Jeff Clemons of UC San Diego, where we found that employers reduced their provision of health insurance for low wage workers in the face of higher minimum wages, clawing back some of that higher wage bill induced by the minimum wage.

Michael Klein:

So, it seems like it's not just wages, there are other things that are going on as well, but some people talk about secondary outcomes of raising the minimum wage, of putting people in a better position to say, get credit or things like that. How do you view those arguments?

Jonathan Meer:

I think those secondary effects are really interesting. And I think we may see them for some of the people who keep their jobs. I don't want to suggest that a minimum wage increase isn't going to benefit anyone. It may very well benefit many, but perhaps not all of the workers who actually keep their jobs, but life becomes much worse for people who lose their jobs, especially these entry-level jobs that allow them to gain experience and climb up a little bit higher on the job ladder. So in my view, the minimum wage is just bad anti-poverty policy.

Michael Klein:

So, what's good anti-poverty policy in this case? People who are advocating for this are really concerned about those at the lower end of the income scale. What's your view on that?

Jonathan Meer:

I think that we're all on the same side here. We care about helping low wage workers. We care about people who are struggling to make ends meet. My view is this is a shared responsibility that should be born by the tax and transfer system, using things like the Earned Income Tax Credit or creative other ways to directly subsidize low wage workers. The simple fact is that wages are determined primarily by productivity and an insistence to the contrary doesn't make it so. The minimum wage is an easy policy to fit on a bumper sticker and it doesn't show up on a government's balance sheet, so it makes it a little bit of an easier law to pass, but it doesn't help the people it's intended to help. And I prefer to do that directly through the tools that we have through shared responsibility and through a direct approach to helping the working poor.

Michael Klein:

So programs in particular, the Earned Income Tax Credit, for example?

Jonathan Meer:

Yeah. So the Earned Income Tax Credit and thinking through better ways of distributing the Earned Income Tax Credit, which goes to low income households who are working. So it's a program designed for the working poor. So for example, you or I, when we were working in high school would not have been eligible for it, being parts of middle-class families, but a low income, a single mother would be eligible for it. I would want to see that expanded. I'd like to see it expanded to workers, expanded more greatly to workers who don't have children. Right now, it's pretty much limited to workers who do have children. And like I said, I think there are creative ways to more directly subsidize the wages of those low income workers and actually achieve what want to achieve rather than sloganeering about it.

Michael Klein:

Is there anything these days in the face of the pandemic and the special threats that are faced by frontline workers, many of whom are lower paid workers, that speaks to the discussion of the minimum wage?

Jonathan Meer:

Well, I think it certainly speaks to the importance of the work that those folks do. And again, the right way, in my view, to subsidize them is to do so directly. If you think about what it would take for a rural hospital that's struggling to make ends meet right now to suddenly be told, "You need to double the wages of your lowest paid workers." Well, they just might not be able to do that. That burden should be shared by all of us and it should be done through the tax and transfer system.

Michael Klein:

Well, Jonathan, thank you very much for speaking with me today about this topic. The discussion of the minimum wage is one where economists disagree, but the arguments that they make on both sides does help us get a deeper understanding of this really important issue.

Jonathan Meer:

Thanks for having me, Michael. I had a ball.

Michael Klein:

Me too. This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log into www.EconoFact.org. EconoFact is a publication of the Fletcher School at Tufts University. Thanks for listening.