Economic
Policy
Institute

The impact of raising the federal minimum wage to $12 by 2020 on workers, businesses, and the economy

Testimony before the U.S. House Committee on Education and the Workforce Member Forum

David Cooper
Senior Economic Analyst
Economic Policy Institute
April 27, 2016, 2:00pm
Rayburn House Office Building 2261

Ranking Member Scott, members of the committee, and Members of the Democratic Caucus, thank you for inviting me to speak with you today. My name is David Cooper. I am the Senior Economic Analyst at the Economic Policy Institute (EPI), a nonpartisan, nonprofit research organization that focuses on improving the economic conditions of low- and middle-income workers and their families.

I am going to speak today about the appropriateness of a $12 federal minimum wage in 2020, and what the research tells us about the effect of raising the minimum wage on workers, businesses, and the economy.

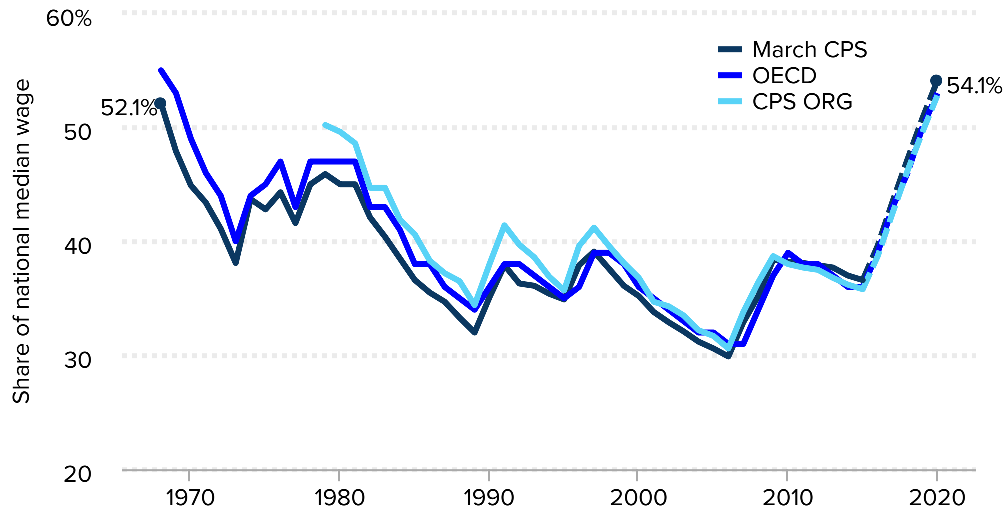
First, it cannot be emphasized enough that the current federal minimum wage of $7.25 is incredibly low by every relevant benchmark. In 1968, the high point of the federal minimum wage in inflation-adjusted terms, the minimum wage was equal to roughly $10 an hour in today's dollars. (Using the Bureau of Labor Statistic's longest-running measure of inflation, it was worth $10.95 in today's dollars; using the Bureau's current method for measuring inflation, it was worth about $9.60.) This means that minimum wage workers today are paid between a quarter and a third less than what similar jobs paid almost 50 years ago, depending on how you measure inflation.

As a consequence, the majority of low-wage workers in America today must rely on federal and state public assistance programs in order to afford their basic needs: 53 percent of workers earning less than $12 an hour rely on some form of means-tested government assistance—such as food stamps, Medicaid, refundable tax credits, and housing and energy subsidies. The federal government spends over $78 billion dollars each year to support the families of workers earning less than $12 an hour, and this is undoubtedly an underestimate because it does not include the value of Medicaid or premium subsidies in healthcare exchanges. To be clear, these dollars are going to workers and families who desperately need this support and if anything, our anti-poverty programs need to be strengthened and expanded. Yet there is considerable savings to be had in these programs if businesses were simply held to the same standard to which they were held in the 1960s. In a paper EPI released last year, we estimated that federal anti-poverty programs would save $17 billion annually if the minimum wage were raised to $12 by 2020.[1] That very savings could be used to strengthen government's antipoverty tools.

The current minimum wage is also exceptionally low relative to the pay of typical workers. In the 1960s, the minimum wage was equal to just over half of the median full-time wage in the United States (between 52 and 55 percent of the median, depending upon how one measures wages.[2] See the figure below.) Today, the federal minimum wage is equal to roughly 36 percent of the median wage. This means that someone working at or near the minimum wage is much farther away from a middle class job than similar workers a generation ago. Sometimes it is said that minimum wage jobs are just starter jobs for young people entering the labor force. First of all, we know that is not true—the average age of workers that would get a raise from a minimum wage increase to $12 is 35 years old and the vast majority (90 percent) are 20 or older.[3] Yet even in cases where it is true, those young people are starting off their careers much further from the middle class than young people of previous generations.

Figure A1

Federal minimum wage as a share of the national median wage, 1968–2014 (actual) and 2015–2020 (projected)



Note: Projections over 2015–2020 assume the minimum wage is gradually raised to $12.00 by 2020 as stipulated by the Raise the Wage Act of 2015. See data appendix for methodology.

Source: Authors' analysis of Current Population Survey (CPS) Annual Social and Economic Supplement microdata, CPS Outgoing Rotation Group microdata, and OECD (2015)

Economic Policy Institute

Raising the federal minimum wage to $12 by 2020, as the Raise the Wage Act would do, would restore the national wage floor to the same relative position that it had in the late 1960s. Under conservative assumptions for wage growth at the median, $12 in 2020 would be equal to roughly 54 percent of the full-time median wage, bringing low-wage workers closer to the pay of a middle-class job, and helping undo some of the growth in wage inequality that has taken place since 1968.

Whenever increasing the minimum wage is discussed, there is always concern that doing so might hurt job growth or imperil businesses that employ low-wage workers. In the 22 times the federal minimum wage has been raised, and the over 300 times that states or localities have raised their minimum wages just since the 1980, these concerns have never materialized. The effect of increasing the minimum wage on employment is probably the most studied topic in labor economics, and the consensus of the literature is that moderate increases in the minimum wage have little to no effect on employment. In fact, this was the conclusion of a letter signed by over 600 PhD economists—including 8 winners of the Nobel Prize—sent to the leaders of both houses of Congress in 2014. The letter stated, "In recent years there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market."[4]

The most detailed study in recent years of the minimum wage's effects was published in a 2014 book by economists Dale Belman and Paul Wolfson.[5] Belman and Wolfson conducted a meta-analysis (a study of studies) of over 200 scholarly papers on the minimum wage published since 1991. They conclude that "modest minimum wage increases raise wages for the working poor without substantially affecting employment or work hours, providing solid benefits with small costs." (p. 401) Belman and Wolfson's book was subsequently awarded Princeton University's Bowen award for the book making the most important contribution toward understanding public policy related to the operation of labor markets.

In recent years, research has found not only that have minimum wage increases have had no measurable negative effects, but they have often produced positive effects on the functioning of the low-wage labor market. Higher minimum wages tend to reduce turnover and increase job tenure among low-wage workers – leading to productivity improvements and lower turnover costs at affected businesses.[6]

Most importantly, research has consistently shown that raising the minimum wage boosts the pay of low-wage workers who typically come from low- and moderate-income households. Because these households typically spend a larger portion of their income than wealthier households, the rising wage floor can provide a modest boost to consumer spending, generating new business activity, particularly in lower-income areas where consumer demand is more depressed. And this is true even if some firms have to enact small price increases as a result of the higher minimum wage. Pay raises for low-wage workers resulting from higher minimum wages are vastly larger than any resulting price increases – typically by a factor of more than 10 to 1.[7] This is because labor costs are only one piece of businesses' overall operating costs, and as previously noted, raising pay simultaneously generates savings from higher productivity and lower turnover.

In summary, raising the minimum wage to $12 by 2020 would boost the wages of tens of millions of American workers, increase low-income households' buying power, reduce reliance on federal assistance programs, and bring the wage floor back up to the same relative value it had in the 1960s. The research indicates that such an increase would not be overly burdensome on businesses or hamper job growth, and could, in fact, strengthen the consumer demand that drives the U.S. economy. I strongly encourage Congress to pass the Raise the Wage Act.

Endnotes

1. See Cooper, David. 2015. *Balancing paychecks and public assistance: How higher wages would strengthen what government can do.* Economic Policy Institute Briefing paper #418. http://www.epi.org/publication/wages-and-transfers/

2. Cooper, David, John Schmitt, and Lawrence Mishel. 2015. *We Can Afford a $12.00 Federal Minimum Wage in 2020. Economic Policy Institute*, Briefing Paper #398. http://www.epi.org/publication/we-can-afford-a-12-00-federal-minimum-wage-in-2020/

3. Cooper, David. 2015. Raising the Minimum Wage to $12 by 2020 Would Lift Wages for 35 Million American Workers. Economic Policy Institute Briefing Paper #405. http://www.epi.org/publication/raising-the-minimum-wage-to-12-by-2020-would-lift-wages-for-35-million-american-workers/

4. See “Over 600 Economists Sign Letter in Support of $10.10 Minimum Wage.” http://www.epi.org/minimum-wage-statement/

5. Belman, Dale and Paul Wolfson. 2014. *What does the minimum wage do?*. Upjohn Institute Press. http://www.upjohn.org/publications/upjohn-institute-press/what-does-minimum-wage-do

6. Dube, Arindrajit, T. William Lester, and Michael Reich. 2014. *Minimum Wage Shocks, Employment Flows, and Labor Market Frictions*. http://www.irle.berkeley.edu/workingpapers/149-13.pdf

7. Research on the price response from minimum wage increases has typically found elasticities less than 0.01 in highly-affected industries such as fast food, indicating that for each 10% increase in the minimum wage, prices typically rose by less than 1%. See Allegretto and Reich, *Are Local Minimum Wages Absorbed by Price Increases?* http://www.irle.berkeley.edu/workingpapers/124-15.pdf