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Robert Kuttner

A Decent Minimum Wage

President Clinton wants to raise the minimum wage. The Republicans object. Indeed, House Majority Leader Richard Armey wants to repeal existing minimum wage laws.

Politically, this was a difficult call for Clinton. On the one hand, raising the minimum wage seems to contradict Clinton's well-advertised return to his "New Democrat" roots. The federal minimum wage evokes FDR, factory workers and the Great Depression, a set of images that Clinton hopes to transcend. The middle class, object of Clinton's courtship, earns a lot more than the minimum wage—or it isn't middle class.

At the same time, a higher minimum wage clearly resonates with the Clinton theme of honoring work. In his State of the Union speech, the president once again saluted Americans working longer hours for less pay, and suggested they deserve more reward. These are precisely the people who've stopped voting, but who tend to vote Democratic when they vote at all.

Contrary to mythology, most of the 4 million minimum wage workers are not teenagers flipping burgers after school. They are breadwinners, mostly female, contributing to an increasingly inadequate household income.

Moreover, the value of the minimum wage has deteriorated markedly. Throughout the late 1950s, under President Eisenhower, it had a real (inflation adjusted) value of over $5 an hour in today's dollars. In the mid-'60s, before eroded by inflation again, it peaked at $6.38—50 percent higher than today's value. As recently as 1978, it was worth over $6, enough for two breadwinners to earn a barely middle-class living. Today it is just $4.25.

In that sense, the Republican views on the minimum wage are also contradictory. Republicans, even more fiercely than President Clinton, want to replace welfare with work. But if work doesn't pay a living wage, then even people who dutifully take jobs can't pay the rent.

Republicans also want budget balance. But hiking the minimum wage is a lot more budget-friendly than having government subsidize low-wage work.

The government's principal device for making work pay is the Earned Income Tax Credit—a kind of negative income tax targeted to low-wage workers with families. It was expanded, with strong bipartisan support, in 1993. Next year, the EITC will cost the federal budget more than $15 billion.

Of course, the Republican desire to encourage work and reduce federal outlays clashes with the Republican worship of unregulated markets. Conservatives, seconded by many economists, have long argued that minimum wage laws reduce jobs. By raising the cost of workers, minimum wages force industry to make fewer hires.

That makes intuitive sense. However, a new and comprehensive study by two Princeton University economists rebuts the conventional wisdom. Economists David Card and Alan Krueger had a laboratory case when New Jersey raised its state minimum wage and neighboring Pennsylvania did not.

Card and Krueger found that employment in New Jersey actually expanded after that state hiked its minimum wage from $4.25 to $5.05 an hour in April 1992. Comparable fast-food outlets across the river in eastern Pennsylvania, whose minimum wage remained at $4.25, experienced lower job growth. Nor was New Jersey's hike in wages offset by reduced fringe benefits. The economists found similar results in studying other states.

What explains these surprising findings? In their forthcoming book, "Myth and Measurement" Card and Krueger find that management has a degree of "market power." They could have been paying higher wages all along. They simply chose not to, given that enough workers were available at the lower wage.

Contrary to the usual claim that higher minimum wages are inflationary, they also found that restaurants mostly did not respond to the higher labor costs by raising prices. Rather they offset the higher pay with improved output and lower turnover. In some cases, they simply absorbed the higher costs.

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At some point, say $7 an hour, Card and Krueger agree that a higher minimum wage would likely reduce employment. But with the value of the minimum wage having eroded so badly, we are nowhere near that tipping point.

All of this suggests that the wisdom of legislating a decent social minimum is far from a cut-and-dried economic proposition. It is simply a political choice.

As a society, we can permit employers to recruit as many low-wage workers as they please, at the lowest going rate. But it turns out that the path of low productivity and low wages doesn't necessarily produce more jobs. Alternatively, we can insist that more company earnings be shared with employees—and we may well reap a more productive economy as well as a fairer one, at less cost to the taxpayers.

By embracing higher minimum wages, President Clinton has identified himself with the work ethic and with the occasional virtue of government regulation to correct imperfect markets and protect vulnerable people. In a speech that otherwise seemed heavily Republican, it was a good place to draw the line.