ECONOMISTS IN SUPPORT OF A $10.50 U.S. MINIMUM WAGE

July 2013

We, the undersigned professional economists, support the “Catching Up to 1968 Act of 2013,” sponsored by Congressman Alan Grayson of Florida. This measure would raise the federal minimum wage from its current level of $7.25, established in 2009, to $10.50 per hour, and with automatic increases indexed to inflation thereafter.

As is conveyed by the title of the bill itself, the real, inflation-adjusted, value of the federal minimum wage has fallen dramatically over time. In 1968, the real value of the minimum wage was $10.65, so that, in fact, an increase today to a $10.50 federal minimum would not even bring the minimum wage fully back to the 1968 standard. Moreover, since 1968, average U.S. labor productivity has risen by 135 percent. Thus, if since 1968, the U.S. minimum wage had only just kept up with inflation and average labor productivity growth, the minimum wage today would be $25.00. (References for all data cited in this petition can be found here: http://www.peri.umass.edu/fileadmin/pdf/resources/minwage_notesjune19.pdf).

If a worker today is employed full time for a full 52-week year at a minimum wage job today, she or he is making $15,080. This is 19 percent below the official poverty line for a family of three. Raising the minimum wage to $10.50 would deliver much needed living standard improvements to 45 million U.S. workers and their families. The average age for these workers is 32 years old and they have been in the labor force for an average of 14 years. Only 9.3 percent of the workers who would benefit from this minimum wage increase are teenagers; i.e., 90.7 percent are adults.

Opponents of minimum wage increases frequently argue that such measures will mean fewer employment opportunities for low-wage workers because businesses will be less willing to hire workers at the increased wage level. But the weight of evidence from the extensive professional literature has, for decades, consistently found that no significant effects on employment opportunities result when the minimum wage rises in reasonable increments. This is because the increases in overall business costs resulting from a minimum wage increase are modest.

Businesses can readily absorb these small cost increases through minor increases in prices and productivity as well as enabling low-wage workers to receive a slightly larger share of businesses’ total revenues. On average, even fast-food restaurants, which employ a disproportionate share of minimum wage workers, are likely to see their overall business costs increase by only about 2.7 percent from a rise today to a $10.50 federal minimum wage. That means, for example, that McDonalds could cover fully half of the cost increase by raising the price of a Big Mac, on average, from $4.00 to $4.05. The remaining half of the adjustment could come through small productivity gains or a slightly more equal distribution of companies’ total revenues.

The economy overall will benefit from the gains in equality tied to the minimum wage increase and related policy initiatives. Greater equality means working people have more spending power, which in turn supports greater overall demand in the economy. Greater equality also means less money is available to flow into the types of hyper-speculative financial practices that led to the 2008-09 Wall Street crash and subsequent Great Recession.
Moreover, the overwhelming factor determining employment opportunities for low-wage workers is macroeconomic conditions—whether the economy is growing or in a recession. Thus, in 1968, when the U.S. minimum wage reached $10.65 in real dollars, the overall unemployment rate was 3.6 percent. By contrast, during the depths of the 1982 recession, the real value of the minimum wage had fallen to $8.05 while unemployment peaked at 10.8 percent.

In short, the “Catching Up to 1968 Act” will be an effective means of improving living standards for low-wage workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed.

(institutional listing for identification purposes only)

Randy Albelda, University of Massachusetts, Boston
Eileen Appelbaum, Center for Economic and Policy Research
Michael Ash, University of Massachusetts, Amherst
Lee Badgett, University of Massachusetts, Amherst
Ron Baiman, Benedictine University
Dean Baker, Center for Economic and Policy Research
Radhika Balakrishnan, Rutgers University
Peter Berg, Michigan State University
Cyrus Bina, University of Minnesota
Ron Blackwell, AFL-CIO (retired)
Peter Bohmer, The Evergreen State College
Samuel Bowles, Santa Fe Institute
James Boyce, University of Massachusetts, Amherst
Elissa Braunstein, Colorado State University
Robert Buchele, Smith College
Al Campbell, University of Utah
Michael Carter, University of Massachusetts, Lowell
Kimberly Christensen, Sarah Lawrence College
Steve Cohn, Knox College
James Crotty, University of Massachusetts, Amherst
Stephen Cullenberg, University of California, Riverside
Jane D’Arista, University of Massachusetts, Amherst
George DeMartino, University of Denver
James Devine, Loyola Marymount University
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Peter Dorman, The Evergreen State College
Marie Duggan, Keene State College
Gerald Epstein, University of Massachusetts, Amherst
Rudy Fitchenbaum, Wright State University
Sean Flaherty, Franklin and Marshall College
Nancy Folbre, University of Massachusetts, Amherst
Richard Freeman, Harvard University
Gerald Friedman, University of Massachusetts, Amherst
James K. Galbraith, University of Texas
Kevin Gallagher, Boston University
Heidi Garrett-Peltier, University of Massachusetts, Amherst
Teresa Ghilarducci, The New School for Social Research
Eban Goodstein, Bard College
Ilene Grabel, University of Denver
John Hall, Portland State University
Martin Hart-Landsberg, Lewis and Clark College
James Heintz, University of Massachusetts, Amherst
John Henry, University of Missouri, Kansas City
Adam Hersh, Center For American Progress
David Howell, The New School for Social Research
Candace Howes, Connecticut College
Dorene Isenberg, University of Redlands
Helene Jorgensen, Center for Economic and Policy Research
Emily Kawano, Center for Popular Economics
Fred Keast, Portland State University
Azizur Khan, University of California, Riverside
Mary King, Portland State University
Timothy Koechlin, Vassar College
David Kotz, University of Massachusetts, Amherst
Frederic Lee, University of Missouri, Kansas City
Charles Levenstein, University of Massachusetts, Lowell
Margaret Levenstein, University of Michigan
Mark Levinson, Service Employees International Union
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Victor Lippit, University of California, Riverside
Stephanie Luce, City University of New York
Arthur MacEwan, University of Massachusetts, Boston
Mark Maier, Glendale Community College
Patrick Mason, Florida State University
Thomas Masterson, Bard College
Peter Matthews, Middlebury College
Elaine McCrate, University of Vermont
Richard McIntyre, University of Rhode Island
Michael Meeropol, City University of New York
Peter Meyer, University of Louisville
William Milberg, The New School for Social Research
John Miller, Wheaton College
Fred Moseley, Mount Holyoke College
Tracy Mott, University of Denver
Marta Murray-Close, University of Massachusetts, Amherst
Leonce Ndikumana, University of Massachusetts, Amherst
Erik Olsen, University of Missouri, Kansas City
Paul Osterman, Massachusetts Institute of Technology
Aaron Pacitti, Siena College
Richard Parker, Harvard University
Kenneth Peres, Communications Workers of America
Karen Pfeifer, Smith College
Robert Pollin, University of Massachusetts, Amherst
Mark Price, Keystone Research Center
Yana Rodgers, Rutgers University
Frank Roosevelt, Metropolitan College of New York
Juliet Schor, Boston College
Stephanie Seguino, University of Vermont
Mark Setterfield, Trinity College
Howard Sherman, University of California, Riverside
Laurence Shute, California State Polytechnic University
Peter Skott, University of Massachusetts, Amherst
Ceren Soylu, University of Massachusetts, Amherst
Frank Thompson, University of Michigan, Ann Arbor
Chris Tilly, University of California, Los Angeles
Zdravka Todorova, Wright State University
William Van Lear, Belmont Abbey College
Roberto Veneziani, University of Massachusetts, Amherst
Eric Verhoogen, Columbia University
Mwangi wa Githinji, University of Massachusetts, Amherst
Norman Waitzman, University of Utah
Thomas Weisskopf, University of Michigan, Ann Arbor
Jeannette Wicks-Lim, University of Massachusetts, Amherst
John Willoughby, American University
Martin Wolfson, University of Notre Dame