

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.

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