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## Maximum impacts and minimum wages



By Mark Zandi, January 26, 2014

In an election year, it's no surprise to see the minimum wage back on top of the economic policy agenda. President Obama supports an increase at the federal level, legislation has been introduced in Congress, and many states and localities with minimum-wage laws are seriously considering it.

I have had many heated debates with others - and even with myself - on this issue, but after netting out all the significant pros and cons, I think the federal minimum wage should be raised.

The biggest plus would be help for the working poor. The divide between the haves and have-nots in this country is widening, driven by economic forces that are firmly in place. Technological change and globalization benefit those with talent and more education, enabling them to sell what they produce much more broadly. Those with lesser skills and education are hurt, as they must compete with lower-paid workers in the rest of the world.

Fewer Americans are able to move up the income ladder. Lower-income households aren't receiving the education and training necessary to win the jobs that would improve their financial situations. Pressure on many of these households can be too much to bear, breaking them apart and reinforcing the ossification of the income distribution.

Arguments that lifting the minimum wage will cost low-income workers their jobs are significantly overstated. It sounds intuitive - if businesses must pay workers a higher wage, then they will employ fewer workers - but the increases being considered are too modest to have much impact on jobs.

Few economic policies have received more attention from economists: The federal minimum has been raised dozens of times over the years, and nearly half the states have minimums above the federal level, creating many real-world "experiments" through which to gauge its impact. The bottom line is that, while raising the minimum wage has probably eliminated some jobs for very low-skilled workers, this loss has been marginal.

Critics also complain that the minimum wage mostly helps kids working part time, and not low-wage workers trying to support families. Not so. The vast majority of those who receive the minimum wage are at least 20 years old, and three-quarters of the benefits go to those with incomes in the bottom half of the working population. About half those earning the minimum wage are full-timers, and almost all work at least 20 hours per week.

Since the federal minimum wage is not tied to inflation, and was last increased in 2009 to its current \$7.25 an hour, it is becoming steadily less helpful to low-income workers. Today, only 3.5 million earn the minimum wage or less, accounting for less than 5 percent of workers. A single parent working full time year round and earning the federal minimum wage is below the poverty line. In the late 1960s, when the minimum wage was at its highest in real, inflation-adjusted terms, it lifted a family of three out of poverty.

To be sure, there are better ways to help the working poor. The most obvious would be to expand the earned-income tax credit. The credit encourages work, since to claim it a taxpayer must have earnings from a job. And it helps low-income workers since it is refundable, meaning that if the credit exceeds a low-wage worker's income tax liability, the IRS refunds the balance to the taxpayer.

The tax credit mainly benefits working parents with children. The expansion of the earned-income tax credit in the 1990s significantly increased the labor-force participation of single moms. This makes it especially appealing today, when many women are leaving the workforce. Children in families that received the tax credit do better in school, are likelier to attend college, and earn more as adults.

Another benefit of the earned-income tax credit is that the cost is borne by all taxpayers, especially those with high incomes who pay more taxes. A hike in the minimum wage is paid mostly by businesses, particularly retailers, restaurants, and similar firms that employ many minimum-wage earners. These industries include large companies, but also many small firms that operate on thin profit margins and will be squeezed when wages rise.

Yet, even if expanding the earned-income tax credit is the best option, it's not going to happen: Washington's dysfunction presents too high a hurdle. But an increase in the minimum wage has a fighting chance to get through Congress. Polling shows it to be consistently so popular with voters that even reluctant legislators may not be able to say no.

While boosting the minimum wage isn't the best way to help the working poor, it is a better alternative than doing nothing.

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