Washington Center *for* Equitable Growth

The misplaced debate about job loss and a $15 minimum wage

By David R. Howell July 2016

Overview

The leading criticism of the "Fight for $15" campaign to raise the federal minimum wage to $15 an hour is the presumed loss of jobs. Employers, the argument goes, would eliminate some workers or reduce their hours in the short-term, and in the longer run, further automate their operations in order to ensure that they will need fewer low-wage workers in the future. For many leading minimum wage advocates, even a gradually phased-in $12 wage floor would take us into "uncharted waters" that would be "a risk not worth taking."

On the other side is the long historical concern with making work "pay," even if that means some job loss. In this view, the most important consideration is the overall employment impact on low-wage workers, after accounting for the additional job creation that will come with higher consumer spending from higher wages, which will almost certainly at least offset any direct initial job losses. And even more importantly, what really matters in this view are the likely huge overall net benefits of a large increase for minimum-wage workers and their families.

If we are serious about job opportunities for low-wage workers then there are many effective ways to compensate those who lose their jobs, ranging from expansionary economic policy to increased public infrastructure spending, more generous unemployment benefits and above all, public-sector job creation. A related issue is whether it makes moral, economic and fiscal sense to maintain a low federal minimum wage and then ask taxpayers to subsidize the employers of low-wage workers by propping up the incomes of poor working families only via means-tested programs such as the Earned Income Tax Credit and supplemental nutrition assistance.

The debate has been, effectively, a stalemate, with the federal minimum wage set at extremely low levels ($7.25 since 2008) by both historical and international standards.

Part of the explanation for our persistent failure to establish a minimally decent wage floor at the federal level has been the way the discourse has been framed—even by many of the strongest advocates for substantially higher minimum wage.

In recent years, the best evidence shows that moderate increases from very low wage floors have no discernible effects on employment, which has helped make the case for substantial increases in the minimum wage. But the very strength of this new evidence—research designs that effectively identify employment effects at the level of individual establishments—has contributed to the adoption of a narrow standard for setting the "right" legal wage floor—defined as the wage that previous research demonstrates will pose little or no risk of future job loss, anywhere. For all sides, the central question has become: Whose estimate of the wage threshold at which there is no job losses whatsoever is the most credible?

This policy brief offers a critique of this "no-job-loss" framing in the current debate. I will argue that relying only on statistical estimates of job loss to set the legal floor is inappropriate because these estimates are inherently contoversial and unresolveable, because this approach leaves the question to arcane debates among statisticians, and because it fails to account for the net benefits of raising the minimum wage for the majority of workers. The "no-job-loss" framing also misses entirely the moral and ethical reasons for mandating a living wage for low-wage U.S. workers. It sets an impossible standard for making public policy—a standard that rules out any direct short-run job losses anywhere would effectively block most labor, social, and environmental policies and regulations. The remainder of this issue brief unpacks what's wrong with this "no-job-loss" standard.

The limits of a purely statistical analysis of the minimum wage

Identifying the highest minimum wage that poses little or no risk of job losses from econometric evidence of earlier minimum wage increases in other jurisdictions—the main approach—is both extremely challenging and inherently controversial. The current debate consists of a battle over which research designs for which cities, states, or foreign countries most credibly predict what would happen if the federal minimum wage were to be increased over some time frame to, say, $10.10, $12 or $15 an hour. Given the many parties with big stakes in the outcome, relying on a statistically derived wage floor that risks zero job losses all but guarantees endless debates over empirical research.

Some economists, for example, point to existing evidence that the effects on employment when the minimum wage is increased within the $6-to-$10 range are minimal. Yet other researchers continue to argue, with credible statistical support, that sizable increases within this $6-to-$10 range do cause at least some job loss in some establishments in some regions, even if limited to high-turnover teenagers.

But there certainly is no evidence that can be relied upon to identify the no-job-loss threshold for a legal wage floor that would apply to the entire United States —the wage *below which* it is known that there is little or no risk of job loss anywhere, and *above which* there is known to be a risk of job loss that is high enough to be not worth taking. The only truly reliable way to do this would be to regularly increase the federal minimum wage while carefully monitoring the employment effects, much as the United Kingdom's Low Pay

Commission has done for the minimum wage that was instituted there in 1999.

There are different stakeholders in this debate. On the one side, there are the academic economists who care deeply about empirical confirmation of price-quantity tradeoffs and restaurant owners who care equally as much about their profit margins. On the other side, there are workers and their advocates who desire the establishment of a minimum living wage. Given the many parties with a big stake in the outcome, relying on evidence-based criteria about job loss for setting the wage floor all but guarantees unresolvable controversy.

The methodological double bind in setting the minimum wage

Then there is the methodological problem—a classic case of "Catch 22." Because the identification of the wage at which there is expected to be zero job loss must be evidence-based, there is no way to establish the higher nationwide wage floors necessary for empirical tests. There are other places that have enacted higher minimum wages—think Santa Monica, Seattle, New York state, France, Australia or the United Kingdom—but they would face the same problem if they relied exclusively on zero job loss as the criterion for the proper wage floor. In practice, high minimum wage locations have relied on other criteria when making the political choice to set the legal wage, namely a wage that more closely approximates a minimum living wage than what the unregulated market generates.

In practical terms, local and state government's past reliance on statistical tests for other jurisdictions not only means that we must assume that they are directly applicable (why would evidence from Seattle, New York state or the United Kingdom be a reliable guide to the effects at the level of the entire U.S. labor market?), but also requires that places imposing a no-job-loss standard must always lag far behind the leaders, and effectively condemns them to setting the wage floor well below the actual wage that will start generating job loss. In short, the no-job-loss criterion cannot stand on its own as a coherent and meaningful standard for setting the legal wage floor, and by relying on old statistical results from other places, ensures a wage that is too low on it own terms.

Ignoring the net benefits of raising the minimum wage

When the criterion for raising the minimum wage is concerned only with the cost side of an increase, the costs of some predicted job losses are all that matters. If the wage floor is set above the no-job-loss level, what kind of jobs will be lost? Who will be the job losers? What alternatives were available to them? These are the kinds of questions that must be asked to determine the costs of minimum wage related job losses. But there are obviously benefits to raising the legal wage floor. Shouldn't they be counted and compared to the costs?

Those benefits are evident directly for the workers receiving wage increases as a result of a rise in the minimum wage, either because they are earning between the old minimum wage and the new one (say, between $7.25 and $15) or because they earn a bit above the new minimum wage—because employers increase wages to maintain wage differentials among workers by skill or seniority. The benefits also are evident for taxpayers–with a much higher minimum wage there would be less need to rely on means-tested redistribution to increase the after-tax and benefit incomes of working families.

Forgetting the ethical and efficiency arguments for raising the minimum wage

Relaying on the no-job-losses criterion for setting an appropriate federal wage floor entirely ignores the main traditional justification for the minimum wage: The moral, social, economic, and political benefits of a much higher standard of living from work for tens of millions of workers. On both human rights and economic efficiency grounds, workers should be able to *sustain* at least themselves and ideally their families. And on the same grounds, it is preferable to do so from their own work rather than from either tax-based public spending or private charity.

It is hard to put this argument for a living wage better than Adam Smith did several centuries ago:

> *A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family…. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.*

A public policy straightjacket

Determining a suitable federal minimum wage based solely on a zero job loss rule is a public policy straightjacket that would effectively rule out any significant raise of the wage floor above that which already exists. Yet from a historical perspective, strict adherence to such policymaking criteria would have also made it impossible to ban child labor (job losses!), as well as many critical environmental and occupational health and safety regulations. It would also foreclose any consideration of policies like paid family leave, which exists in every other affluent country.

Conclusion

Breaking out of this public policy straightjacket requires policymakers to rethink their criteria for raising the minimum wage. It also means that economists must shake off their fear of challenging the prevailing orthodoxy—a no-immediate-harm-to-anyone way of thinking—and see the longer-term benefits to millions of workers. It is estimated that the move to a $15 minimum wage by both California and New York state will directly raise the pay for over one-third of all workers.

If we really care about maximizing employment opportunities then we should not hold a decent minimum wage hostage to the no-job-loss standard. Rather, we should put a much higher priority on full-employment fiscal and monetary macroeconomic policy, minor variations of which would have massively greater employment effects than even the highest statutory wage floors that have been proposed.

But it is also well within our capabilities to counter any job loss that can be linked to the adoption of what the prominent University of Chicago economist J. B. Clark in 1913 called "emergency relief" such as extended unemployment benefits, education and training subsidies, and public jobs programs. A minimum living wage combined with other policies common throughout the affluent world, such as meaningful child-cash allowances, would put the United States back among other rich nations that promote work incentives while all but eliminating both in-work poverty and child poverty. It would put the country into waters that most other affluent nations have charted and are already navigating.

—David Howell is a professor of economics and public policy at The New School in New York City. This note reflects and builds on the material that appears in the working paper published by the Washington Center for Equitable Growth, "What's the Right Minimum Wage? Reframing the Debate from 'No Job Loss' to a 'Minimum Living Wage,'" co-authored with Kea Fiedler and Stephanie Luce.

Our Mission

Accelerate cutting-edge analysis into whether and how structural changes in the U.S. economy, particularly related to economic inequality, affect economic growth.

Washington Center for Equitable Growth

1500 K Street, NW, Suite 850, Washington, DC 20005 • Tel: 202-545-6002 • www.equitablegrowth.org • @equitablegrowth