The minimum wage: How much is too much?

By Alan B. Krueger
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The federal minimum wage has been stuck at $7.25 an hour since 2009. While Congress has refused to take action, Democratic politicians have been engaged in something of a bidding war to propose raising the minimum wage ever higher: first to $10.10, then to $12, and now some are pushing for $15 an hour.

Research suggests that a minimum wage set as high as $12 an hour will do more good than harm for low-wage workers, but a $15-an-hour national minimum wage would put us in uncharted waters, and risk undesirable and unintended consequences.

When Congress delays raising the minimum wage, states and cities typically step in and raise their own minimum wages. That is exactly what is happening now.

More than half of the states, representing 60 percent of the United States population, now have minimum wages that exceed the federal level. The fact that voters in four "red" states — Alaska, Arkansas, Nebraska and South Dakota — voted overwhelmingly last year to raise their states' minimum wages to as high as $9.75 an hour is a testament to the support the minimum wage enjoys among the population at large.

Some cities plan to raise their wage floors to $15 an hour. And Gov. Andrew M. Cuomo declared last month that "every working man and woman in the state of New York deserves $15 an hour as a minimum wage."

When I started studying the minimum wage 25 years ago, like most economists at that time I expected that the wage floor reduced employment for some groups of workers. But research that I and others have conducted convinced me that if the minimum wage is set at a moderate level it does not necessarily reduce employment. While some employers cut jobs in response to a minimum-wage increase, others find that a higher wage floor enables them to fill their vacancies and reduce turnover, which raises employment, even though it eats into their profits. The net effect of all this, as has been found in most studies of the minimum wage over the last quarter-century, is that when it is set at a moderate level, the minimum wage has little or no effect on employment.

For example, David Card of the University of California, Berkeley, and I found that when New Jersey raised its minimum wage from $4.25 to $5.05 an hour in 1992 (or from about $7.25 to $8.60 in today's dollars), job growth at fast-food restaurants in the state was just as strong as it was at restaurants across the border in Pennsylvania, where the minimum wage remained $4.25 an hour. Equally important — but less well known — within New Jersey, job growth was just as strong at low-wage restaurants that were constrained by the law to raise pay as it was at higher-wage restaurants that were not directly affected by the increase since their workers already earned more than the new minimum.

I am frequently asked, "How high can the minimum wage go without jeopardizing employment of low-wage workers? And at what level would further minimum wage increases result in more job losses than wage gains, lowering the earnings of low-wage workers as a whole?"

Although available research cannot precisely answer these questions, I am confident that a federal minimum wage that rises to around $12 an hour over the next five years or so would not have a meaningful negative effect on United States employment. One reason for this judgment is that around 140 research projects commissioned by Britain's independent Low Pay Commission have found that the minimum wage “has led to higher than average wage increases for the lowest paid, with little evidence of adverse effects on employment or the economy.” A $12-per-hour minimum wage in the United States phased in over several years would be in the same ballpark as Britain’s minimum wage today.

But $15 an hour is beyond international experience, and could well be counterproductive. Although some high-wage cities and states could probably absorb a $15-an-hour minimum wage with little or no job loss, it is far from clear that the same could be said for every state, city and town in the United States.

More logical is the proposed legislation from Senator Patty Murray, Democrat of Washington, and Robert C. Scott, Democrat of Virginia, calling for raising the federal minimum wage to $12 an hour by 2020. Their bill is co-sponsored by 32 senators, and supported by President Obama and Hillary Clinton. High-wage cities and states could raise their minimums to $15.

Although the plight of low-wage workers is a national tragedy, the push for a nationwide $15 minimum wage strikes me as a risk not worth taking, especially because other tools, such as the earned-income tax credit, can be used in combination with a higher minimum wage to improve the livelihoods of low-wage workers.

Economics is all about understanding trade-offs and risks. The trade-off is likely to become more severe, and the risk greater, if the minimum wage is set beyond the range studied in past research.

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