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Raise That Wage

By PAUL KRUGMAN

President Obama laid out a number of good ideas in his State of the Union address. Unfortunately, almost all of them would require spending money — and given Republican control of the House of Representatives, it's hard to imagine that happening.

One major proposal, however, wouldn't involve budget outlays: the president's call for a rise in the minimum wage from \$7.25 an hour to \$9.00, with subsequent increases in line with inflation. The question we need to ask is: Would this be good policy? And the answer, perhaps surprisingly, is a clear yes.

Why “surprisingly”? Well, Economics 101 tells us to be very cautious about attempts to legislate market outcomes. Every textbook — mine included — lays out the unintended consequences that flow from policies like rent controls or agricultural price supports. And even most liberal economists would, I suspect, agree that setting a minimum wage of, say, \$20 an hour would create a lot of problems.

But that's not what's on the table. And there are strong reasons to believe that the kind of minimum wage increase the president is proposing would have overwhelmingly positive effects.

First of all, the current level of the minimum wage is very low by any reasonable standard. For about four decades, increases in the minimum wage have consistently fallen behind inflation, so that in real terms the minimum wage is substantially lower than it was in the 1960s. Meanwhile, worker productivity has doubled. Isn't it time for a raise?

Now, you might argue that even if the current minimum wage seems low, raising it would cost jobs. But there's evidence on that question — lots and lots of evidence, because the minimum wage is one of the most studied issues in all of economics. U.S. experience, it turns out, offers many “natural experiments” here, in which one state raises its minimum wage while others do not. And while there are dissenters, as there always are, the great preponderance of the evidence from these natural experiments points to little if any negative effect of minimum wage increases on employment.

Why is this true? That's a subject of continuing research, but one theme in all the explanations is that workers aren't bushels of wheat or even Manhattan apartments; they're human beings, and the human relationships involved in hiring and firing are inevitably more complex than markets for mere commodities. And one byproduct of this human complexity seems to be that modest increases in wages for the least-paid don't necessarily reduce the number of jobs.

What this means, in turn, is that the main effect of a rise in minimum wages is a rise in the incomes of hard-working but low-paid Americans — which is, of course, what we're trying to accomplish.

Finally, it's important to understand how the minimum wage interacts with other policies aimed at helping lower-paid workers, in particular the earned-income tax credit, which helps low-income families who help themselves. The tax credit — which has traditionally had bipartisan support, although that may be ending — is also good policy. But it has a well-known defect: Some of its benefits end up flowing not to workers but to employers, in the form of lower wages. And guess what? An increase in the minimum wage helps correct this defect. It turns out that the tax credit and the minimum wage aren't competing policies, they're complementary policies that work best in tandem.

So Mr. Obama's wage proposal is good economics. It's also good politics: a wage increase is supported by an overwhelming majority of voters, including a strong majority of self-identified Republican women (but not men). Yet G.O.P. leaders in Congress are opposed to any rise. Why? They say that they're concerned about the people who might lose their jobs, never mind the evidence that this won't actually happen. But this isn't credible.

For today's Republican leaders clearly feel disdain for low-wage workers. Bear in mind that such workers, even if they work full time, by and large don't pay income taxes (although they pay plenty in payroll and sales taxes), while they may receive benefits like Medicaid and food stamps. And you know what this makes them, in the eyes of the G.O.P.: "takers," members of the contemptible 47 percent who, as Mitt Romney said to nods of approval, won't take responsibility for their own lives.

Eric Cantor, the House majority leader, offered a perfect illustration of this disdain last Labor Day: He chose to commemorate a holiday dedicated to workers by sending out a message that said nothing at all about workers, but praised the efforts of business owners instead.

The good news is that not many Americans share that disdain; just about everyone except Republican men believes that the lowest-paid workers deserve a raise. And they're right. We should raise the minimum wage, now.