Column: Why a $15 minimum wage shouldn't scare us

BY John Komlos *August 2, 2016 at 4:40 PM EST*

Raising the minimum wage has not hurt anyone except the boogeyman in the imagination of the 1 percenters and their entourage, writes economist John Komlos, author of "What Every Economics Student Needs to Know and Doesn't Get in the Usual Principles Text."

[Photo by Jason Redmond/Reuters]

The economics of the minimum wage is widely misunderstood. While many commentators claim unjustifiably that increases in the minimum wage destroy jobs, there is actually no evidence to support their contention. Considered superficially, the logic seems plausible. If the price of something increases you'll buy less of it, won't you?

Nonsense. Obviously, it is possible, but it ain't necessarily so. That's the key point: it ain't necessarily so. It is essentially an empirical issue.

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Consider the context. Take the cup of coffee I have in the morning. I don't care how much the price of coffee is — double it, triple it — I'll still drink a cup in the morning. I won't drink less of it. Or consider orange juice. I paid $2.35 for a quart the other day, but it was worth $4.00 to me. So in a sense I made a "profit" of $1.65. Thus, if the price were to increase to $3, I would still buy that orange juice, and I would still make $1 "profit." See what I mean?

The same thing is true for labor. Labor is worth a lot more to firms than they are paying for it. They are lucky in that they have the power to offer little and get a lot for it in the absence of countervailing power. The difference is their profit. Workers are organizing, but they have lacked power, because they have had little government backing, lacked union support, and they faced stiff competition from the unemployed multitude. In such a power imbalance, it is easy for firms to exploit their superior position, pay little and get a lot of work done.

Today's low-wage workers are far better educated than in 1968: 46 percent have some college compared to 17 percent in 1968, and 79 percent have high school diploma versus 48 percent in 1968. Yet they earn 23 percent less! Competition does not raise wages in an economy in which millions are looking for work. In that type of an economy, any type of work beats becoming homeless.

Of course, there are a few ma-and-pa operations that are struggling already, making no profit and cannot afford to pay higher wages. Those businesses will have to let go an employee and work harder to make up the difference. So there will be a couple of workers laid off. But such shoestring operations are a miniscule segment of today's economy, and our default model should not be based on them. As long as firms are making hefty profits, an increase in the minimum wage is most likely to affect only the profit rate.

And today's economy is characterized by mega-oligopolies wielding stupendous power and making stupendous profits — $2.2 trillion worth in 2015. Here are some examples: Walmart made $19.2 billion in 2015; Home Depot, $7.0 billion; CVS, $5.2 billion; McDonald's, $4.8 billion; Walgreens, $3.4 billion; Target, $3.4 billion; Lowe's, $2.5 billion; Kroger, $2.0 billion; Hilton, $1.4 billion. They all pay mostly miserable wages. In fact, one thing this economy is great at is producing profits. It is not great at raising salaries, it is not great at keeping people out of jail, it is not great at creating an educated labor force, but it is great at making profits.

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While Congress is catatonic, many states and municipalities are acting to protect workers. Twenty-nine states, D.C. and 21 cities and counties have a higher minimum wage than the miserly federal rate of $7.25. Having been enacted through referendums, it's clear that the increases have voter support. Seattle's minimum wage jumped from $9.47 to $11 in April 2015. Prior to that, the town of SeaTac, also in the state of Washington, implemented an increase to $15 in early 2014. Yet the unemployment rate did not increase at all; instead it fell in SeaTac from 6 percent to today's 5.3 percent (in line with national trends), and employment is up by 6 percent since the enactment of the law.

In Seattle, the increase in minimum wage is being phased in much slower and is only at $13 today for those franchises whose chain employs more than 500 workers. It will reach $15 for such large establishments, but only for those not paying health insurance in 2017; it will not become generally binding until 2022. The city of Chicago will also be raising the minimum wage to $13 by 2019. It started at $10 on July 1, 2015. California will lift the state's minimum wage to $15 by 2022 and New York State by 2018. In other words, there is a movement afoot to recognize that market outcomes are unbearable to a very large segment of the population.

Yet, the Republican Party platform skirts the issue of the federal minimum wage, stating, "Minimum wage is an issue that should be handled at the state and local level." In stark contrast, the Democratic platform calls for an increase in the federal minimum wage to $15 hours, asserting that "the current minimum wage is a starvation wage and must be increased to a living wage."

Unemployment in Seattle during the year before April 2015 averaged 4.1 percent, whereas during the year after that, it was 4.2 percent. This is hardly a meaningful difference. (Unemployment rates vary month to month. For example, the national employment rate was 4.7 percent in May and 4.9 percent in June.) In fact, the number of people employed in the Seattle area increased by 61,000 or 3.3 percent during the year after April 2015. No trace of massive layoffs there either. In fact, in April 2015 Seattle's employment numbers were increasing 2 percent faster than the national rate. In April 2016, they were rising 2.3 percent faster.

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What about prices? Did they rise as opponents of raising the minimum wage said they would? Seattle's inflation was 2.5 percent — not very different from the 2.2 percent experienced by other urban consumers in the West, as indicated by the Consumer Price Index in Table 10. Researchers have also not found a difference in the inflation rate between Seattle and its suburbs. But even if all of the 2.5 percent inflation was due to the increase in minimum wage, it would mean a mere 2.5 cent increase for a cheeseburger. Do you think that would be worth having a fairer distribution of income? Fewer fast-food workers would require public assistance with an increase in the minimum wage. Now, fully half do. It makes no sense for taxpayers to subsidize the profits of the fast-food industry.

Raising the minimum wage has not hurt anyone except the boogeyman in the imagination of the 1 percenters and their entourage. Conservatives are merely throwing invectives at a phantom of their own imagination. But they never complain about the annual salary of Target's CEO being $28 million or that of Walmart being $19 million. No, that doesn't increase prices at all, but increasing the wage of their employees from $9.47 to $11.00 an hour *does*. What hypocrisy!

John Komlos

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