



Column: Why raising the minimum wage is good economics

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Donald Trump, the real estate mogul and **frontrunner-by-far** in the Republican presidential primary, asserted callously at the Milwaukee debate that “**wages are too high**” in this country. Was he fantasizing or was he talking about his own wages? Lucky enough to be born into a millionaire family, how could he know what it feels like to keep one’s head above water as the **1.3 million people** working at the current federal minimum wage of \$7.25 an hour do? Even if one can work full-time, after state and federal **taxes** and **Social Security** and Medicare deductions, one is lucky to retain \$225 a week or \$12,000 a year, which is precisely the **threshold of poverty** for a single person. Welcome to the world of the working poor. No chance of paying rent and taking care of dependent children on that kind of salary. As a matter of fact, you’d be barely surviving. That’s not any more than the Russian serfs were able to do.

The billionaire fails to realize that the real minimum wage (that is, the minimum wage adjusted for inflation) has been declining steadily and precipitously. If adjusted for inflation, the **minimum wage of 1968** would be **\$10.90** today. That is a whopping *reduction* of the federal minimum wage by a third. It’s worth noting that the unemployment rate was **3.6 percent** in 1968 with a higher real minimum wage. So the unemployment rate is higher today — at 5 percent — than it was in 1968, while the real minimum wage is lower today than it was in 1968.

Moreover, the minimum wage in the U.S. is well below that of other advanced countries. The **Economist** estimates that the minimum wage should be about \$12 an hour in the U.S based on our GDP. That makes a lot of sense, especially because \$10.90 would put it just where it was in 1968. If we add a little extra to the minimum wage for the growth in productivity, \$12 seems to be a conservative estimate of where the lower bound of workers’ wages should be. In addition to the **1.3 million people** working at minimum wage, there are another **1.7 million** working below minimum wage (tipped employees) and an additional **21 million employees** who are working just above the minimum, but below \$10 an hour. They would also

be affected, because their pay is pegged to the minimum wage. So an increase in the minimum wage would affect a third of the labor force being paid an hourly basis.

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Those against raising the minimum wage often argue that it will hurt young people the most and that they “need the experience” of working at the minimum wage. But notice that the **youth unemployment rate** in Germany is 7.8 percent, and in Switzerland, it is 8.5 percent. In contrast, youth unemployment is 15.5 percent in the U.S., even though the U.S.’s minimum wage (**using Purchasing Power Parities exchange rates**) is below that of these Germany’s and Switzerland’s \$10 and **\$9.20** an hour respectively. In other words, both have higher minimum wages, but much lower youth unemployment rates. Their overall **unemployment rate** is also lower: 4.5 percent and 3.4 percent, respectively. The minimum wage makes no difference on unemployment.

Sadly, the mogul and TV celebrity continued to reveal his ignorance by adding, “we cannot do this [raise the minimum] if we are going to compete with the rest of the world.” That, too, is nonsense, because minimum wage workers are not engaged in the export sector. Do you have a Chinese McDonald’s in your neighborhood? I don’t think so. In fact, most of the people who work for under \$10 an hour are working as cashiers at grocery and department stores (1.4 million), retail salespeople (1.1 million), cooks (1 million) and janitors, cleaners, waiters or waitresses (1.5 million) — none of whom work in the export sector. Raising their minimum wage would not hurt our exports at all. Their wages have nothing to do with competing with the rest of the world.

Trump’s advice to low-wage workers was just as ignorant. “People have to go out; **they have to work really hard** and have to get into that upper stratum.” He should tell that to the woman who was working so hard to **make ends meet that she died** from fumes in her car while napping in between shifts. Hard work used to be a means of social mobility, but not anymore. Not on \$7.25 hour.

The brilliant neurosurgeon who is **fourth in national polls** in a field of 14 candidates weighed in on the discussion, saying, “**Every time we raise the minimum wage, the number of jobless people increases.**” **Myths dye hard.**

But the matter of fact is that there is no evidence to back that assertion, as Alan Krueger of Princeton University told the **PBS NewsHour**.

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One of the reasons that increases in the minimum wage would not have an impact on unemployment is that in today's economy an increase in minimum wage would come mostly out of profits. And there is plenty of that to go around.

Think of it this way: You're running a McDonald's selling 1,000 hamburgers a day. You make, say, 75 cents on each **Big Mac costing \$3.99**. Will you raise its price by a nickel to \$4.04 in order to make up for an increase in the minimum wage? That would be silly, because \$4.04 is not an attractive number, and you'd lose too many sales as a consequence. Rather, you'd be satisfied with a lower profit margin on a Big Mac of 70 cents. But you notice that the Big Mac Meal is selling for **\$5.69**; that gives you the opportunity to raise its price to the next attractive number of \$5.75 in order to make up for the increased cost of labor. Will the demand for Big Mac Meals decline? It is doubtful that customers will even notice that tiny increase in price. Hence, Krueger concludes, "**The net effect is basically no change in overall employment.**" Profits might decline slightly, but not on every item. There are offsetting benefits as well: "**decently paid workers tend to do a better job.**"

So profits would not be in great jeopardy. Anyhow, the one thing this economy is good at is generating profits with most of it, of course, going to the top 1 percent. Corporate (after-tax) profits are currently ringing the cash register at **\$1.8 trillion**. This equals about all wages and salaries earned by those employed in the **manufacturing sector and in all government employment** (state, local, federal) combined. That's quite a lot. Adjusted for inflation, profits increased by a factor of 4.7 since 1968 while minimum wage decreased by a third. That is the best the free market could deliver for the men and women on Main Street.

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In America, inequality begins in the womb

Another luminary contending for the spotlight, the Florida whippersnapper Marco Rubio, **currently the third runner up**, had the brilliant hypothesis that, “If you raise the minimum wage, you’re going to make people more expensive than a machine.” Cashiers are already being replaced by self-checkout machines, but people still need a living wage, Marco! (Not to mention that a few occupations won’t be displaced any time soon.) All you need to do is to channel some of the exorbitant CEO salaries toward the common worker.

CEO compensation these days is roughly **\$7,000** an hour (that is, assuming a 40-hour workweek). In fact, CEO-to-average worker pay has increased by a factor of 15 from the 1960s ratio of **20 to 1 to the present whopping 300 to 1**. But in some companies it is astronomical. At Chipotle the ratio is **1,522 to 1**. Yes, you read it right. That is not a typo. In some firms, the CEO makes **nearly 2,000 times** as much as the average worker. At Walmart the ratio is 1,133. Do these CEOs deserve their millions? Not by a long shot. Take the CEO of Coca Cola company. He still pockets **\$25 million**. His rival, the CEO of Pepsico writes a check to himself for **\$22 million**. Yet, I have not heard any of the Republican presidential hopefuls suggest that these millions are hurting our exports. A pittance to the coolies hurts the economy, but the millions to their bosses are quite all right.

Lest I forget to mention, **three-quarters of the population** support raising the minimum wage to \$10 an hour. Even among Republicans there is a majority support for it. Yet, not one of the eight contenders on the podium expressed the slightest empathy for the downtrodden multitude, the American serfs of the 21st century. Not a single one.

Correction: This article previously stated that the CEO-to-worker pay ratio at Chipotle was 1,951 to 1. It’s since been update to reflect the correct ratio of 1,522 to 1.

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