Convergence on the minimum wage

Arguing about the minimum wage never goes out of style. The Obama administration has proposed to raise the federal minimum wage from the current $7.25 per hour to $10.10, and again the political battle lines are being drawn.

But outside of politics there is a growing convergence of opinion on the minimum wage. Opinion polls show that a solid majority of Americans favor an increase. Even a slim majority of rank-and-file Republicans favor it.

And then there are the economists. For decades, conservatives count on economists to back up their arguments on minimum-wage increases. In 1976, Nobel laureate George Stigler said “it is not possible to enlist good economists to defend minimum wage laws.” In 1990, 82 percent of the members of the American Economic Association agreed, or agreed with conditions, with the statement, “a minimum wage increase unemployment among young and unskilled workers.”

But in the 1990s, new research began to show that a rising minimum wage does not lead to job losses. As a result, the consensus among economists has shifted during the last 20 years. Many economists still believe that the minimum wage costs jobs, but a growing majority think the benefits outweigh the costs.

This view was a factor in a recent study by the Congressional Budget Office, which projected the likely outcomes of increases in the minimum wage to $9 and $10. The CBO did this by summarizing the existing research on minimum wage hikes. The headlines focused on one particular conclusion of the study, that an increase to $10.10 would lead to 500,000 lost jobs.

But there was more. That projection was actually the midpoint of an interval that ran from nearly zero up to almost 1 million. In other words, the CBO’s projection was a job loss of 500,000, plus or minus 500,000. That’s a big margin of error, but it reflects economists’ uncertainty on this point.

Moreover, the CBO report assigned a 33 percent probability that job losses would be outside of that wide interval. That implies a one-in-three chance that job losses would be either greater than 1 million or less than zero (which would mean job gains).

According to the CBO, our best guess is that there will be half million lost jobs if the minimum wage is increased to $10.10. But it’s a guess with lots of finger-crossing. In contrast, there is much less uncertainty in the CBO report regarding the benefits of an increase to $10.10. The report projects that 16.5 million workers would get a raise, and 900,000 workers would be lifted out of poverty. Those are big numbers when compared to job losses.

Clearly, there would be winners and losers from raising the minimum wage. But that’s true of all economic policies. Consider the example of free-trade agreements. Not everyone wins. Economists generally support freer trade because the winners (usually consumers) gain more than the losers (usually a subset of workers) lose.

Is it a problem for 500,000 people (give or take) to lose their jobs if the minimum wage were raised? Of course it is. But to economists, the only rational way to assess a policy is by weighing the benefits as well as the costs. Based on the CBO report, the benefit-cost ratio of an increase to $10.10 looks pretty good.

It wouldn’t be crazy to claim that 500,000 lost jobs is too high a cost to bear. But that’s an opinion that fewer and fewer economists agree with.

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