Should Greensboro Set a Minimum Wage?

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Article:

Wages aren't what they used to be. Wage growth in recent years has been slow, especially in manufacturing. Wage income now commands the lowest share of Gross Domestic Product on record. Clearly something should be done. But should that something be an increase in the minimum wage?

The Democrats who now run Congress think so. Both houses have passed a law that will raise the federal minimum wage from the current $5.15 per hour to $7.25 by 2009. The bill is expected to pass but is currently stalled due to disagreements over provisions for tax credits.

In North Carolina, the state's minimum was raised from $5.15 to $6.15 on January 1.

In Greensboro, a grass-roots campaign has emerged to call for a citywide minimum wage of $9.36 per hour, which would roughly match the buying power of the federal minimum wage in 1968. Why 1968? That was the high water mark for the minimum wage's buying power, so supporters are clearly not aiming low. They believe that minimum-wage workers should earn nothing less than the most they've ever earned, which would be a whopping 52 percent above the current state minimum.

One issue is whether setting Greensboro's minimum wage so much higher than in outlying areas would drive low-wage jobs outside the city limits. Supporters say this won't happen, and they're backed up by some studies that show little or no effect in other cities. My guess is that dramatic job migration is unlikely here as well. For the most part, a higher minimum wage would affect retail and fast-food workers, and those sectors are highly dependent on location. Driving seven miles up Battleground at rush hour to get a hamburger in Summerfield would satisfy no one's idea of "fast food." And suburban areas already tend to be well-served by such businesses.

Job losses are one thing; what about jobs that might have been created but never materialize? Inner-city neighborhoods are under-served by the retail sector, and at a time when cities are trying to encourage urban development, a minimum wage is certainly not going to provide *more* incentive to set up shop in the inner city. And a citywide minimum wage as high as has been proposed is bound to alter location decisions near the city limits.

Another issue facing the proposed ordinance is whether a city in North Carolina may establish a general minimum wage. A few years ago when I chaired Greensboro's Living Wage Study Committee, city staff informed the committee that cities in North Carolina could not enact such ordinances unless explicitly authorized by the state legislature. But minimum-wage supporters claim that cities have this power, and for all I know they're right. If they're wrong, I presume they'll refocus their campaign on the state legislature.

Traditionally, economists have vigorously opposed minimum-wage laws due to their believed adverse effects on employment. In recent years the opposition has muted, if only a bit. According to one study, 82% of the 1990 membership of the American Economic Association agreed, or agreed with provisos, with the statement, “a minimum wage increases unemployment among young and unskilled workers.” In 2000, that figure had fallen to 73.5%, with more respondents falling into the “agree with provisos” category.

Some of this erosion in the opposition to minimum-wage laws is a reaction to research by economists David Card and Alan Krueger, who argued in a series of studies in the 1990s that increases in certain state minimum wages had failed to lead to significant drops in employment, and in some cases even led to small increases. However, the minimum-wage increases they studied weren’t nearly as big as the one being proposed for Greensboro.

As you can imagine, the possibility of job increases is exciting to minimum-wage supporters. But few economists give this much credence, because it doesn’t fit with what we know about real-world markets for low-wage labor.

Whether the small increases found by Card and Krueger were statistical flukes or stunning breakthroughs is still being debated by labor economists.

Even though the Card-Krueger methodology is far from universally accepted, their other results are actually consistent with the conventional wisdom. It’s well-known that a minimum wage can lead to only a small decrease in low-wage jobs if the demand for that labor is quite insensitive to wage changes. If a falling wage leads employers to increase hiring only slightly, then a rising wage will reduce employment by only a small amount. Many economists believe this to be the case for low-wage workers.

Similarly, economists have always understood that if a minimum wage is set low enough, it will have no effect whatsoever on employment. For example, if the minimum wage is $5.15 per hour and all low-wage workers are already making $6.50, then raising the minimum to $6.15 would have no effect. In this case the minimum wage is irrelevant.

The real-world implications are far from irrelevant, however, because economic policy isn’t made in a political vacuum. Politicians are more likely to support minimum-wage increases when it’s believed that they’ll have little effect on the employers who are also their constituents. Recent history is full of examples of state legislatures approving increases when their state economies were strong and wages already high, and opposing them when times weren’t so good. The political system appears to have a built-in bias in favor of minimum-wage laws that have little or no effect.

So the prevailing view among economists continues to be that if a minimum wage has any effect, it will reduce employment, whether by a little or a lot. But the story doesn’t have to end there. Even with job losses among young and low-skill workers, a rising minimum wage could still pass a cost-benefit test. If the demand for such workers is insensitive to wage changes, then the small reduction in employment might be more than offset by the increased earnings of those lucky enough to keep their jobs. And because the unlucky ones tend not to vote, this might even work politically. Would that be moral? That’s a separate question.

Even though most economists are at least highly skeptical of minimum-wage laws, they generally support other policies to address poverty in America. In particular, many economists favor an expansion of the federal earned-income tax credit, which has the potential to do a much better job of subsidizing the incomes of the working poor. And an EITC spreads the cost of the subsidy across all taxpayers rather than focusing it on the employers of low-wage workers (and their customers). The N.C. Budget and Tax Center, no bastion of right-wingers, favors the establishment of a state EITC (though, to be fair, its parent organization, the N.C. Justice Center, favors minimum-wage laws as well).

Before Greensboro enacts a citywide minimum-wage ordinance, especially one that raises the minimum to over 50 percent above the state level, more must be known about the local market for young and low-skill workers. How many are there? How sensitive is demand to wage changes? Then we can decide through political channels if we want to add to the burden of starting a business in the inner city. We can decide whether the jobs lost--and the jobs not created--are worth the social cost of raising some workers' wages.

It always amuses me when reporters go out and ask people on the street if they think the minimum wage should be increased. The people on the street generally say yes, because everyone agrees that it'd be nice to make more money. Wouldn't we all say yes if that's all there were to it? But reporters would shed more light on the issue if they asked the question with a caveat: "Do you think the minimum wage should be increased if it meant that you might lose your job?"