Hiking The Minimum Wage To $15 Is Key — But It's Hardly A Living Wage

Robert Pollin

The federal minimum wage hasn't increased in over a decade. After a brief but failed attempt by the Biden administration to raise it to $15 an hour, it will most likely remain at the current $7.25 for an indefinite time to come. This is a shame, for the economic benefits of wage hikes are beyond dispute, as many studies have shown, including those authored by Robert Pollin, distinguished professor of economics and co-director of the Political Economy Research Institute at the University of Massachusetts at Amherst. Pollin is co-author of *The Living Wage: Building a Fair Economy* (1998) and *A Measure of Fairness: The Economics of Living Wages and Minimum Wages in the United States* (2008) and has worked with many U.S. non-governmental organizations on creating living wage statutes at both the statewide and municipal levels. In this interview, Pollin discusses why, even though we must continue to push for a $15 minimum wage, we must also consider what a true living wage looks like.

C.J. Polychroniou: The general argument against raising the minimum wage is that it is bad for small business and the economy in general. Is there any truth in this claim?

Robert Pollin: Going through a bit of background will be helpful here. The federal minimum wage was last increased in July 2009, from $6.55 an hour to $7.25. So, no increase in 12 years. But actually, the situation is far worse than even what this suggests. That is because, at the very least, we have to factor in the effects of inflation on people's ability to buy the things they need to live. Inflation means that the prices of food, housing, transportation, clothing and other necessities have been rising. So the minimum wage today would need to be $8.77 in order to buy what $7.25 could buy in 2009.

But there is still much more to the story once we take account of inflation. That is, after we factor in inflation, the U.S. minimum wage actually peaked in 1968, 52 years ago. In today's dollars, after factoring in inflation, the federal minimum wage in 1968 was $11.90, 64 percent higher than today's $7.25 figure. Further still, average labor productivity — i.e., the amount of goods or services an average worker can produce over the course of a day in the U.S. — has risen at an average rate of 1.9 percent per year since 1968. What if, starting in 1968, the federal minimum wage had risen every year in step with the 1.9 percent average increase in productivity as well as inflation? That would mean that minimum wage workers would get raises when they are producing more every day, but their raise would only equal exactly their 1.9 percent improvement in productivity but not a penny more. In that case, the federal minimum wage today would be $31.67 an hour — *over four times higher than the actual federal minimum wage today.*

Now if we go back to 1968, when the federal minimum wage was approximately $11.90 in today's dollars, in fact the U.S. economy was booming. The official unemployment rate was 3.6 percent, i.e., less than half of the average 8.1 percent unemployment rate over 2020. So it is obvious that the U.S. economy can function just fine at a much higher federal minimum wage rate than the $7.25 rate that prevails today.

We also get basically the same result by looking at the experiences in recent years with minimum wage laws in U.S. states and living wage statues in some municipalities that are higher than the federal minimum wage. Right now, 29 states along with the District of Columbia operate with minimum wage rates higher than the federal minimum. The citywide minimum in Washington, D.C., is already at $15.00, and the State of Washington is next highest at $13.69. The evidence on the experiences in these states and cities is that businesses function at least as well if not better than those states that still operate at the federal $7.25 minimum. The employment opportunities in these states and cities are also at least as good if not better.

It is fair to ask: If businesses are mandated to pay higher wages than they would choose to pay otherwise, then why is it that we don't see these businesses lay off employees or close up operations after they are forced to give raises? The answer is that the overwhelming majority of businesses don't want to be forced to raise wages for their employees, but they learn to adjust. They might raise their prices modestly to cover their increased payroll. The businesses' level of productivity is also likely to improve. This is because their workers become more committed to their jobs when they are paid at minimally decent levels. These productivity increases will not be enough to compensate for the businesses' increased payroll, but they will help to partially cover some of their higher costs.

Finally, some businesses may just end up accepting modestly lower profits, even if reluctantly. To the extent this occurs, raising the minimum wage will end up advancing a more equal distribution of income between businesses and workers. This is after 40 years under neoliberalism in which inequality has risen relentlessly. The decline in the value of the minimum wage, after adjusting for inflation, has been a significant factor contributing to the overall rise in inequality under neoliberalism.

Millions of Americans earn wages at or below the federal minimum. Are there estimates of the consequences of a wage hike to $15 an hour on the lives of the working poor?

According to a range of research compiled by the Economic Policy Institute, increasing the federal minimum wage to $15 would deliver pay increases for nearly 32 million workers, 21 percent of the entire U.S. workforce. Nearly 60 percent of workers whose families are currently living below the official poverty line would see their pay go up. The average affected worker with a year-round full-time job would earn an extra $3,300 per year. This would have a major impact on the lives of these workers and their families. It would mean, for example, they would be able to take care of an elderly relative rather than work a second job to cover rent. It would mean they could get their car repaired when that becomes necessary without having to cut back on buying food. It could even mean that they could take a modest vacation.

It is also important to note that the minimum wage increase to $15 an hour would disproportionately benefit Black and Latino workers — with 31 percent of Black people and 26 percent of Latinos getting raises through the minimum wage increase. Finally, we have to dispel the idea that a minimum wage increase largely benefits teenagers with after-school part-time jobs. Only 10 percent of the workers who would benefit from the $15 minimum wage are teenagers. But it is also the case that teenagers deserve to be paid decently. A large share of them are making significant contributions to their families' overall income level.

Is a $15 minimum wage itself really enough for a worker to live on decently?

We should be clear that raising the federal minimum wage to $15 an hour takes us only a small way towards establishing decent wage standards in the U.S. A critical question to ask here is: What would constitute a *living wage* standard in the U.S.? There have been various efforts at addressing this question. One of the most comprehensive efforts has been by a team of researchers at MIT, led by Professor Amy Glasmeier, who produce what they call a "Living Wage Calculator." The MIT researchers describe their living wage standard as follows: "It is a market-based approach that draws upon geographically specific expenditure data related to a family's likely minimum food, childcare, health insurance, housing, transportation and other basic necessities (e.g. clothing, personal care items, etc.) costs."

The MIT researchers also make clear what their living wage standard is capable of purchasing in all the various regions of the U.S. They write:
The living wage model does not allow for what many consider the basic necessities enjoyed by many Americans. It does not budget funds for pre-prepared meals or those eaten in restaurants. It does not include money for entertainment, nor does it allocate leisure time for unpaid vacations or holidays. Lastly, it does not provide a financial means for planning for the future through savings and investment or for the purchase of capital assets. The living wage is the minimum income standard that, if met, draws a very fine line between the financial independence of the working poor and the need to seek out public assistance or suffer consistent and severe housing and food insecurity. In light of this fact, the living wage is perhaps better defined as a minimum subsistence wage for persons living in the United States.

Given this description of how the MIT researchers define a "living wage" standard, their results as to what constitutes a living wage in various regions of the U.S. are striking. For example, considering a family with a single parent and one child, the MIT Calculator finds that as a statewide average, the living wage would range from a low in Mississippi of $26.74 to a high in Massachusetts of $36.88. Wisconsin is in the middle of the state living wage average, at $30.17.

In short, the fight for a $15 federal minimum wage needs to be won. But it should also be recognized as being an important but still small step toward reversing the impact of 40 years of neoliberal economic policies on the lives of working people in the United States.

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