

Employers Also Benefit from a Higher Minimum Wage

The Times of Trenton

December 18, 2004

Employers also benefit from a higher minimum wage

By Eileen Applebaum and Annette Bernhardt

A woman earning the minimum wage makes just \$10,712 working full time for 52 weeks. Yet it takes \$18,600 to lift a family above the poverty line. The minimum wage has been stuck at \$5.15 an hour while everything else has gone up in price and inflation has reduced its buying power.

Ninety percent of people who consistently earn the minimum wage are women. No one can credibly dispute that low-wage workers and their families need a raise. New York state addressed this problem just this week by phasing in a substantial increase in its minimum wage. Workers in New Jersey, where the cost of living is one-third higher than the national average, also need an increase. Still, some business groups are opposed to it, warning that employers will respond by cutting jobs or moving out of the state, a false argument that should be put to rest.

Careful economic studies over the last two decades, some by Princeton University economist Alan B. Krueger and his colleagues, show that raising the minimum wage does not cause the job loss predicted by opponents. Reviewing these studies, the President's Council of Economic Advisors concluded in 1999 that "the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment."

We learned that in the current policy climate, many employers find it next to impossible to pay their front-line workers fairly. The steep decline in the minimum wage (currently 40 percent below its value in 1968, or \$8.50 an hour after taking inflation into account) has provided short-sighted employers an irresistible opportunity to gain an edge in the marketplace by paying low wages.

In order for employers to fight off this race to the bottom, the playing field needs to be leveled so they can make the investments that will result in higher productivity and thereby allow them to raise their wages. Across the country, 13 states and many local communities are supporting their employers by setting a minimum standard of decency above the federal minimum wage of \$5.15 an hour.

The bottom line is that a low-wage floor creates incentives for employers to take the easy way out and cut wages to enhance profits. But a higher wage floor alters this calculus and pushes firms to invest in new technology, modern management practices, better training and better ways of delivering services in order to raise productivity and profits.

Workers gain with higher wages. Employers gain with higher productivity and lower turnover. And society gains when working families can provide for themselves and don't have to resort to public benefits to make ends meet.

The minimum wage is one of the nation's core policy instruments for setting the basic parameters that govern how companies pursue profits. Just as important, it is a measure of our devotion to economic fairness. Phasing in an increase in New Jersey's minimum wage to \$7.50 an hour would give 300,000 low-paid workers a raise. Indexing the minimum wage would let the incomes of those on the bottom rung rise along with the rest of us. It shouldn't take an act of Congress for these workers to get a raise.

ABOUT THE AUTHORS

Eileen Appelbaum is a labor economist and director of the Center for Women and Work at Rutgers University. Annette Bernhardt is a senior policy analyst at the Brennan Center for Justice at New York University Law School.