A $15 minimum wage would cost jobs, right? Probably not, economists say

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By Edward Lempinen| March 18, 2021

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For millions of American workers in retail, restaurants, childcare and other sectors of the job market, the minimum wage hasn't risen since 2009, when it was set at $7.25 an hour. Today, Berkeley scholars say, many workers have full-time jobs but still live in poverty. (AP photo by Wilfredo Lee)

Proposals for a $15-an-hour minimum wage suffered a major setback last week in Congress, following months of debate and negotiation focused largely on a single core question: If the minimum wage is doubled over a five-year span, would that cause employers to reduce staff, or hire fewer people?

The conventional wisdom says yes — and if you want to help workers, you don't want to cut jobs. There's just one problem: A growing body of evidence suggests that the conventional wisdom is wrong.

Extensive research led by UC Berkeley economists and alumni has found that significant increases in the minimum wage have little, if any, impact on employers' hiring decisions. In fact, the researchers say, a higher minimum wage can produce benefits not just for workers, but for their employers, their communities and the entire economy.

"Raising the minimum wage is a simple, direct way that we can improve the incomes of low-wage workers, pull many poor families out of poverty and pull many children out of poverty," said Ken Jacobs, chair of the UC Berkeley Labor Center. "It allows us to do it in a way that's good for the overall economy — and it's incredibly popular among voters."

Ken Jacobs (Photo by Elizabeth del Rocío Camacho)

While a Democrat-backed push for the $15 minimum wage was stripped out of President Joe Biden's historic $1.9 trillion pandemic relief bill, it's certain to be a continuing issue. Some scholars say the economic devastation caused by the COVID-19 pandemic sharpens the urgency of finding a new way to raise the minimum wage now set at $7.25-an-hour for millions of American workers, and at just $2.13 an hour for others who rely on tips.

If millions of workers in restaurants, child care or retail sales are stuck at or near the current minimum wage, "there will be no way for them to recover," said Saru Jayaraman, director of UC Berkeley's Food Labor Research Center. "There will be no way they can pay all the back rent and bills that have accumulated during the pandemic.

Saru Jayaraman (UC Berkeley photo)

"And if these workers can't buy things because they don't have money, there will be no way for the economy to bounce back."

Over the past two decades, UC Berkeley has emerged as a center of international influence in minimum wage research, and in recent studies and interviews, university economists described how a higher minimum wage can generate a range of benefits, many of them unexpected:

- A more robust economy and increased economic development in low-wage areas.
- A reduced pay gap between workers of color and their white colleagues.
- Reduced crime, improved health in children and even reduced suicide rates.
- Lower government spending for safety-net programs such as food stamps and Medicaid, and billions in new tax revenues.

Such benefits are usually absent from high-level policy debates. But they could be crucially important as debate on the minimum wage continues in the weeks and months ahead.

Business realities collide with old-school economics

American discourse about the minimum wage is often a moral debate. A "pull-yourself-up-by-the-bootstraps" ethos competes with a view of workers as vulnerable to exploitation. The debate is colored by the assumption that minimum-wage jobs are largely geared to teenagers and college students, providing them entry into the labor force while teaching lessons needed for a successful working life.

The conventional wisdom about the minimum wage and job losses met one of its first substantive challenges in the early 1990s from two young economists at Princeton University: Alan Krueger and David Card, who now chairs the economics department at Berkeley. They were part of an emerging movement that stressed the importance of using high-quality empirical evidence to back economic theory.

David Card (UC Berkeley photo)

As New Jersey prepared to raise its minimum wage almost 20%, to $5.05 per hour, they saw an opportunity for innovative research: They would track what happened to the labor force at the state's fast-food restaurants and compare that to restaurants in neighboring Pennsylvania, where the minimum wage would remain at $4.25 an hour.

If the conventional wisdom were correct, the restaurants in New Jersey should have shed jobs. What the researchers found, however, was altogether different. Fast-food restaurants suffered from chronic turnover and vacancies, and when wages increased, more people were willing to take the jobs. Employment didn't fall — and in some cases, it rose.

The study by Card and Krueger — "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania" — was published in 1993, and it sent shock waves through the realm of labor and business economics. The backlash drew in some of the biggest names in the field, with criticism that was unusually fierce.

> Their conclusion rocked the economics profession: "We find no indication that the rise in the minimum wage reduced employment."https://t.co/B7P45sv1ae
>
> — Binyamin Appelbaum (@BCAppelbaum) March 18, 2019

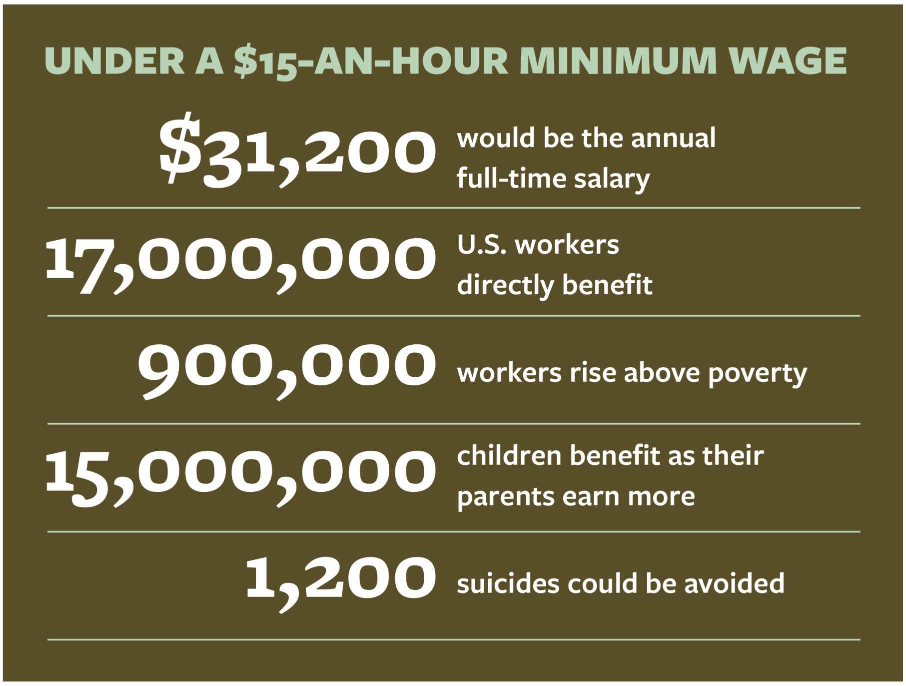
The late Nobel laureate James Buchanan, for example, wrote in the Wall Street Journal that Card and Krueger were damaging the fundamental credibility of economics. He called them "a bevy of camp-following whores."

As the years have passed, however, a new generation of economists have affirmed and expanded on the work of Krueger and Card, and even former critics have come to accept their insights.

Still, Card and other say, today's debate remains rooted in conventional wisdom of the mid-20th century. Opinions based on the old conventional wisdom die hard, he said.

“The textbooks are frustratingly stupid in our field,” Card said in a recent interview. “The simple models that economists use — they want to hold onto these models, even though they know full well that there are problems with them.”

The working poor: Hard labor, constant vulnerability



(Graphic by Hulda Nelson)

With the policy debate gridlocked, and the minimum wage frozen at $7.25 for nearly 12 years, real-life economic conditions for tens of millions of low-wage workers have deteriorated.

“People who are living not just paycheck to paycheck, but having trouble making ends meet, are leading extraordinarily difficult lives,” said Michael Reich, a Berkeley economist and co-chair of the Center on Wage and Employment Dynamics (CWED). “Any little non-routine event — your car breaks down, or your kids are sick and can’t go to childcare — can trigger a cascade of events that could lead you to lose your job. These are households with very little cushion, and minimum wage really does make a huge difference.”

In 1968, the minimum wage was $1.60 an hour, about $12 in today’s dollars. That means that workers today who are at or near the $7.25 minimum have far less buying power than their counterparts more than 50 years ago. Based on the average of about 31 hours per week for low-wage workers, a minimum wage worker today would earn less than $12,000 per year.

A 2017 paper by Reich and Berkeley colleague Jesse Rothstein, former chief economist in the U.S. Department of Labor under President Barack Obama, described it as a poverty wage:

“This amount falls short of the poverty line for single individuals and for single parents,” they wrote. “Single parents and their children would still be in poverty, even if the adult worked 40 hours per week and 52 weeks per year.”

Michael Reich (UC Berkeley photo)

One recent report found that nearly 40 million Americans — 28% of the workforce — earn less than $15 an hour. Most are adults, and a disproportionate number are Black and Latinx workers. A $15-an-hour minimum wage would give full-time workers a minimum annual salary of about $31,000.

Down and out in American restaurants

Today’s low minimum wages for waiters are directly linked to the post-Civil War era, when restaurant owners hired former slaves with no wage at all, but only the opportunity to earn tips. Not until 1966 did federal law require restaurants and bars to pay a minimum wage. (U.S. Farm Security Administration/Office of War Information photo by Jack Delano via Picryl)

Jayaraman is an authority on restaurant labor and economics. In addition to her academic posts at Berkeley, she is the co-founder and president of One Fair Wage, a grassroots advocacy organization of restaurant workers. Restaurants feature the largest concentration of minimum and low-wage workers, she said, and these workers provide a startling view into the lives of the working poor.

Jayaraman traces the custom that allows restaurant owners to pay their servers little or nothing, and forces the workers to be dependent on tips, to the mid-19th century, when women and ex-slaves were entering the restaurant workforce.

“It’s a direct legacy of slavery that was used to devalue Black lives and women’s work,” she said.

Today, U.S. law sets the minimum wage for waiters and other tipped workers at a mere $2.13 an hour — a rate unchanged since 1991. If waiters’ tips aren’t enough to bring them up to minimum wage, restaurants are required to make up the difference, but federal enforcement is weak and the law is frequently ignored.

Who is most harmed by this law? In testimony before the Illinois Senate last November, Jayaraman had a clear answer: women, and especially women of color.

Some 70% of tipped workers in Illinois are women who typically work at casual restaurants like IHOP and Denny’s, she told the lawmakers, and they “struggle with the highest rates of economic insecurity… of any industry.”

“In Chicago,” she added, “one-third of Black women tipped workers live in poverty, one-half depend on food stamps, and 45% rely on Medicaid — all three to five times the rate of the general workforce.”

According to a One Fair Wage report issued late last year, the pandemic has had a staggering effect: Of all the jobs lost in the U.S., an estimated one in four were food service jobs. Those who kept their jobs often have faced a grim struggle with reduced wages and an elevated risk of getting sick.

Women make up about 70% of U.S. restaurant servers, and Jayaraman said many are under pressure to dress provocatively in order to win bigger tips. Increasingly, she said, customers harass them threatening to withhold tips unless they remove their masks. (Photo by Nathan Rupert via Flickr)

A startling four in 10 women restaurant workers reported an increase in sexual harassment by customers. The workers reported degrading treatment: "Pull that mask down so I can see if I want to take you home later," one customer said. "I'll take your mask off and stick my tongue down your throat," said another.

Because an hourly wage of $2.13 barely covers taxes, "you're living almost completely just on tips," Jayaraman said. "You have to tolerate whatever a customer does to you — however they treat you, touch you or talk to you — because they know *they're* the ones paying your family's bills. *They're* feeding your children.

"It's not the employers — they profit off the value of your labor, but they do not pay you. That's the literal definition of slavery."

California, along with six other states and the District of Columbia, has enacted laws to assure that tipped workers will be paid the state's full minimum wage, before tips. According to Jayaraman, reports of sexual harassment in California are half of those in states with the $2.13 minimum wage.

Still, hundreds of thousands of California's food service workers remain in the ranks of the working poor.

Jacobs' research team recently co-authored a report on 150,000 fast food workers in Los Angeles County, most of them at or near the minimum wage. The researchers found that two-thirds of the workers were in families receiving federal safety-net support for income, food supplies or medical care.

$15 an hour: Many winners — but how many losers?

In late February, Republican senators opposed to a $15 minimum wage proposed a middle path, raising the minimum to $10 by 2025. The Congressional Budget Office (CBO) had gamed out that option in 2019 and found it would have a "negligible" impact on poverty.

U.S. fast-food workers often have low pay, little sick leave and few benefits. Tens of thousands in California alone use government welfare programs to get by, Berkeley researchers say. (Image via Wikimedia Commons)

In a separate report earlier this year, the CBO found that a $15 minimum would have a dramatic impact: higher wages for 17 million people now making less than that, and a possible bump for another 10 million currently just above $15. That would bring 900,000 people out of poverty, the CBO said — and 1.4 million jobs would be lost.

But Berkeley economists and colleagues nationwide have criticized the CBO methodology, saying that it vastly overstated the potential job losses.

Why wouldn't the job losses be greater? Why, in other words, does the conventional wisdom fall short? Reich has explored various dimensions of the issue, and he cites several factors that would ease the hit on business.

Raising the wage gradually, over five years, would prevent a salary shock. The higher wages would help to prevent turnover and improve productivity, reducing costs for hiring and training. The raise would apply to every business — every restaurant, for example, would have to manage the same labor costs as its competitors.

Labor costs would rise, Reich said, and businesses would pass small price increases to their customers. But research shows that people will absorb those rising prices, especially if they're spread out over five years.

At the same time, research conducted by Reich with Berkeley economists Sylvia Allegretto and Claire Montialoux shows that businesses would benefit as higher wages for workers generate higher spending on products and services.

‘Higher minimum wages are likely to save lives’

Decades of research have demonstrated that poor people often suffer poor health. It stands to reason, then, that better pay for low-income workers could improve their health.

But research by Berkeley scholars and other economists has probed deeper issues of how the poverty-level minimum wage is embedded in troubling and intractable American problems ranging from racial inequality to childhood poverty, and from the costs of government welfare programs to the costs of economic despair.

Among the key findings:

A higher minimum wage will narrow the income gap between workers of color and white colleagues.

In research published last month, Montialoux and her Berkeley colleague, economist Ellora Derenoncourt, found that federal action in the 1960s to raise the minimum wage and extend it to new job sectors significantly narrowed the earnings gap between Black and white workers.

Ellora Derenoncourt (Photo by Shruti Parekh)

“It is no coincidence that civil rights leaders in 1963 singled out the minimum wage as a critical tool for racial justice, and their demands are just as salient today,” Derenoncourt and Montialoux wrote in the *New York Times*.

In an interview, Derenoncourt said that over 60% of nursing home workers in that earlier era were paid less than the newly set minimum wage — but the research found no evidence of significant job losses after it went into effect.

“The 1967 expansion of the minimum wage affected 30% of all Black workers and 20% of workers overall,” she said. “That is roughly the same as the $15 minimum wage today.”

Claire Montialoux (Photo by Brittany Hosea-Small)

It would relieve poverty and advance development across low-income regions.

One of the most common criticisms of the proposed $15 hourly wage is that, while appropriate for expensive urban areas such as San Francisco or New York, it would impose a heavy burden on businesses in less affluent areas where the cost of living is far lower.

But extensive research on the 1960s-era minimum wage expansion showed that it “helped to spur increases in growth and productivity” in the South and other low-wage areas, Jacobs said.

In a groundbreaking 2019 study, Reich and Anna Godøy, then a research economist at the Institute for Research on Labor and Employment (IRLE), found that a $15 minimum wage in low-wage areas would lift workers and their children out of poverty without causing job loss, and without adverse effects on vulnerable women or minority workers.

While many states and cities have set their minimum wage above the federal rate, 21 states remain at $7.25, and 10 others are under $10. Economists say that raises a risk: Some states could be trapped in a second-tier economy characterized by chronic low wages and high poverty. Jacobs and others stress that $15 an hour, or $31,000 a year, is not lavish anywhere.

“That’s a level of pay that allows people to meet basic needs throughout the United States,” he said. “It fits with some people’s basic values that workers should earn enough to survive and support their families, and that companies should not be allowed to pay wages that are so low that people can’t meet their needs.”

Though they have vitally important jobs, U.S. child-care workers are frequently paid at or near the minimum wage, experts say. (Photo by Elizabeth del Rocío Camacho)

Many benefits of a higher minimum wage would flow to children.

One recent survey of research concluded that nearly 15 million children in low-income working families — 1.6 million of them in California — could benefit from the raise. The higher wages are associated with improved prenatal development, better child health, reduced reports of maltreatment and better results at school.

But even at $15 an hour, Reich and Rothstein found, many families would remain locked in poverty. While a single adult could get by just about everywhere on that wage, they wrote in 2017, "single parents with children would fall short of the basic family budget in almost every U.S. county — even with the help of food stamps and other public support programs."

A higher minimum wage would prevent suicides.

In 2019, Reich and Godøy co-authored an IRLE study that found that 10% increases in the minimum wage could help prevent over 1,200 U.S. suicides a year.

"A lot of the time, the discussion of higher minimum wages is framed in narrow economic terms," Godøy said then. "Our study shows that higher minimum wages are likely to save lives."

Government would gain two ways: Higher tax revenue and reduced welfare expenses.

Nearly half of the U.S. families who would gain from a $15 minimum wage are currently using government aid programs such as Medicaid or food stamps, according to research co-authored by Jacobs and released in January.

In a paper published last month, Reich elaborated on that finding: Higher income for low-wage workers would mean more tax revenues for the federal government and less need for safety-net support, he found. Plus, some older workers would delay retirement, easing the demand for Social Security funds.

Taken together, Reich calculated, these new revenues and savings would yield $65.4 billion per year to the federal government.

And now, the search for a new political route

President Joe Biden and Congressional leaders are under intense pressure from labor and anti-poverty organizations to win approval for the $15-an-hour minimum wage. (Photo by Gage Skidmore via Wikimedia Commons)

While scholars at Berkeley have achieved national and international influence through their research findings, much of their work is only incidental to the political debate in Washington — or absent altogether.

“The discussion on minimum wage in the United States has always been odd,” Jacobs said. “Usually in a public policy discussion, you’re looking at what are the benefits, what are the trade-offs, how do they balance against each other?

“But,” he added, “somehow in this debate, the opponents have put forward this very simplistic supply and demand model of employment. It doesn’t correspond to the evidence, but it overshadows all of the other effects of raising the minimum wage.”

The proposed $15 minimum appears to have momentum: Amazon, Costco, Target and other retailers have embraced it, and voters in red state Florida approved it in November. Though the higher minimum wage was stripped from Biden’s COVID relief bill, Berkeley scholars predict it will remain prominent as Washington faces continued pressure to reduce poverty and support working-class Americans.

“So many years have passed since the minimum wage was raised, and millions of people have fallen further and further behind,” Jayaraman said. “It’s clear that when they’re financially secure, the entire economy benefits. And there’s strong public support for change. So this is a moment of opportunity for lawmakers, and the issue will certainly remain a flashpoint until there’s a fair resolution.”