

Romney gambles on indexing minimum wage to inflation

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MITT ROMNEY has taken a political gamble by supporting automatic increases in the federal minimum wage, a move that could help bolster his support among low-income US citizens but is opposed by the conservative base of his party.

The former Massachusetts governor wants to see the minimum wage raised from its current level of \$7.25 an hour by having it indexed to inflation.

Mr Romney made the proposal early in his campaign, but made sure to reiterate it after a firestorm erupted last week around his comments in a television interview – which he claims were misinterpreted – that he was “not concerned about the very poor”.

However, Mr Romney’s drubbing in three caucuses – in Colorado, Minnesota and Missouri, which voted this week to send Rick Santorum to challenge President Barack Obama to the White House in November – suggests that straying from his base on economic policy can carry big risks.

“We should be making it easier for young people to get a job, not raising the cost of hiring young people, making it harder,” Newt Gingrich said, saying that the minimum wage was one key economic policy difference between the two candidates.

Chris Chocola of the Club for Growth, a conservative anti-tax lobbying group, said such a move would harm the economy. “Indexing the minimum wage would be an absolute job killer,” he said. “It’s disappointing to hear the leading candidate for the Republican nomination believes the government can set the price of labour better than the free market.”

The last time Congress agreed to raise the minimum wage was in 2007, in the final years of the Bush administration.

Mr Obama vowed to increase the minimum wage to \$9.50 an hour during the 2008 campaign, but has been unable to achieve that, partly because of resistance among Republicans.

Proponents of an increase in the federal minimum wage say it is long overdue – particularly since in real terms it is now lower than it was in the late 1960s. According to the Economic Policy Institute, the minimum wage touched \$9 in 2011 dollars 4½ decades ago.

Even with a minimum wage-level full-time salary, a household would probably be under the poverty line. Since federal minimum wage law only sets a floor to salaries – not a ceiling – some US states have taken it upon themselves to raise the minimum wage, in some cases tying it to inflation.

The highest is set at \$9.04 an hour in Washington state.

Mary Gable of the EPI, a left-leaning Washington think-tank, said raising the minimum wage could also stimulate the economy, shifting money from corporate profits to family wages, who would tend to spend the extra cash faster than companies might invest it.

However, Michael Tanner, a senior fellow at the libertarian Cato Institute in Washington, warned that supporting a raise is a “red flag” for Republicans.

“Romney is trying to burnish what limited blue-collar credentials he has,” he said, but this was not wise “at a time when the base doesn’t trust him”. – (Copyright The Financial Times Limited 2012)