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Top Reason to Raise the Minimum Wage: It’s 30% Below 1968 Level After Inflation

By Bernice Napach Sat, Mar 2, 2013

In his State of the Union Address President Obama proposed raising the minimum wage to $9.00 an hour, declaring that “in the wealthiest nation on earth, no one who works full-time should have to live in poverty.”

A full-time worker making the minimum wage today would earn roughly $14,500 a year—about 40% below the $23,550 poverty line for a family of four.

Given that gap, about 19 states have set a minimum wage above the federal minimum—including at least 10 that raised it the beginning of this year and more states are considering increases.

On Capitol Hill Senator Tom Harkin (D-IA) and Representative George Miller (D-CA) this week announced plans to introduce a bill to raise the national minimum wage to $10.10 in just over two years after passage and adjusting it for inflation after that. If the minimum wage of $1.60 per hour in 1968 had been adjusted for inflation it would be close to $10.30 today—or 30% higher than the current rate.

Not everyone agrees that raising the minimum wage would help minimum wage workers.

Dan Mitchell, senior fellow at the Cato Institute, a libertarian Washington, D.C. think tank, tells The Daily Ticker “If you increase the price of something by 24%...In all likelihood you’re pricing them out of a job….it will cause job losses. The federal government shouldn’t put people out of work.”

Mitchell assumes that all the increases in the minimum wage would be passed onto consumers, who in turn will reduce their purchases. “If McDonalds raises their hamburger prices 33% they will sell fewer hamburgers… If the government raises the price of low-skilled labor by 33% there will be less low-skilled labor being hired.”

But Senator Harkin, in a recent USA Today op-ed, writes that raising the minimum wage “would create at least 100,000 jobs through increased consumer spending” by “putting additional money in the hands of consumers who will spend it right away in their local communities.”

Economists generally agree that the economy gets more bang for the buck putting money into the hands of lower income workers rather than higher-income earners. Mark Zandi of Moody’s Analytics, who has advised Senator John McCain during his presidential bid in 2008 as well as President Obama, says the so-called multiplier effect of emergency of unemployment benefits, for example, is 1.52—meaning $1.52

spent by consumers for every dollar's worth of government stimulus and 1.27 for the employee payroll tax cut vs. a 0.25 multiplier for an income tax cut for wealthy Americans. As part of the deal to avoid going off the fiscal cliff the employee payroll tax cut was eliminated but unemployment benefits were extended.

Another reason to raise the minimum wage: record inequality in the U.S. now.

"Company owners and wage earners are doing incredibly well, " says The Daily Ticker's Henry Blodget. "Everybody else is getting hammered. Why isn't it a good idea to force companies to pay their workers more?....The vast majority of the country is paid almost nothing...Most of the people who work for Wal-Mart (WMT) are poor."

Blodget says Harkin and Miller's plan to raise the minimum wage to $10.10 in a few years is simply indexing it to inflation, taking it back to where it was more than 40 years ago. "That doesn't seem too extreme."

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