The Costs and Benefits of Raising the Minimum Wage

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According to a 2014 Congressional Budget Office (CBO) report on the effects of raising the federal minimum wage in three steps from $7.25 per hour in 2014 to $10.10 per hour in 2016, there would be significant job losses *and* much larger gains in income for low-earning workers.[1]

Per CBO's analysis, in 2014, the job losses that would result from what CBO labels the "$10.10 Option" would range from:

Low Estimate:	Very slight decrease	
Central Estimate:	- 500,000 workers	0.3% of workforce
High Estimate	-1,000,000 workers	0.6% of workforce

CBO concluded that "there is a two-thirds chance that the actual effect would be within this range," [2]

CBO's estimates of the positive effects of the $10.10 option are quite large for low-income workers as a whole:[3]

Number of Workers With Hourly Wages Less Than the Proposed Minimum Whose Earnings Would Increase in an Average Week	16.5 million
Change in the Number of People in Poverty	-900,000
Increased Earnings for Low-Wage Workers	+ $31 billion

Packed into these CBO estimates of *net* increases in real income is a complex analysis of losers, winners, and the comparative size of their losses and wins. Let us begin with "micro" examples of losers and winners, then turn to the aggregate outcome.

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[1] Congressional Budget Office, *The Effects of a Minimum Wage Increase on Employment and Family Income*, February 2014, Pub. No. 4856, p. 1, https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44995-MinimumWage.pdf. CBO commented, in a footnote, that there would be a small group of workers that neither lost work nor gained income: "some workers earning less than $10.10 per hour and not covered by minimum-wage laws would also not have increased earnings."

[2] *Id*., Table 1, p. 2.

[3] *Id*., Table 1, pp. 2-3.

For an individual full-time, year-round worker whose jobs is eliminated because of the rise in the minimum wage from $7.25 per hour to $10.10 per hour, the earnings loss could be as much as $15,080.[4] Not all individual employees whose jobs would disappear, however, would lose that much: if they work part-time or part-year, their earnings loss could be substantially less.

For the individual winners—that is: workers whose jobs are *not* eliminated, but whose pay rises—the earnings gain could also be large. An individual full-time, year-round worker whose job remains, but whose wage rate jumps from $7.25 per hour to $10.10 per hour (i.e., goes up $2.85 per hour) could see higher earnings of as much as $5,928.[5] Most of the individual workers who benefit from a boost in the minimum wage, of course, will not see that big an earnings gain, for two reasons: (1) most would start from an hourly wage higher than $7.25 per hour, and from that higher wage rate go up to $10.10 per hour, and (2) many would not be working full-time, year-round. Nonetheless, a large share of the individual workers whose wages rise would see a significant gain in earnings. This also includes some now already being paid $10.10 or higher, but who would then insist on being paid above the *new* minimum wage and whose employers would be obliged to agree in order to retain those employees.

What, then, would be the aggregate impact of raising the minimum wage from $7.25 to $10.10 per hour? According to CBO, when we weigh in the scale the 500,000 (or fewer, or more) workers whose jobs would be lost vs. the 16.5 million workers earning less than $10.10 who would remain employed and whose earnings would increase by $31 billion, there would be a *net increase* in real income for families up to 600% of the poverty line. The total net increase for these families would be $19 billion. Following is a breakdown for different groups below or between different percentages of the poverty line:[6]

Net Increase in Real Income (2013 dollars, annualized):	
•Families Below 100% of Poverty Threshold	+ $ 5 billion
•Families 100%-300% of Poverty Threshold	+ $12 billion
•Families 300%-600% of Poverty Threshold	+ $ 2 billion

In contrast, CBO's estimate of the net total impact on families above 600% of the poverty line was a very large decrease: - $17 billion.[7]

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[4] This calculation assumes: $7.25/hour x 40 hours/week x 52 weeks/year.

[5] This calculation assumes: ($10.10 per hour - $7.25 per hour) x 40 hours/week x 52 weeks/year.

[6] Congressional Budget Office, *The Effects of a Minimum Wage Increase on Employment and Family Income*, February 2014, Pub. No. 4856, p. 11, https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44995-MinimumWage.pdf

[7] *Id*.

CBO further estimated that the impact of a $10.10 minimum wage on the net annual income of the *average* family below 600% of poverty (as opposed to *all* such families below that income level) would be as follows:[8]

•Families Below 100% of Poverty Threshold	+ $ 300	+2.8%
•Families 100%-150% of Poverty Threshold	+ $ 300	+1.1%
•Families 150%-200% of Poverty Threshold	+ $ 200	+0.6%
•Families 200%-300% of Poverty Threshold	+ $ 200	+0.4%
•Families 300%-600% of Poverty Threshold	+ $ 0-50	+0-0.05%

The net annual income figures above relate to the majority of U.S. families, i.e., those whose incomes are *below* 600% of the official poverty threshold. A smaller number of families, of course, have incomes *above* 600% of poverty, i.e., roughly $150,000 for a family of four in 2014.[9] Raising the minimum wage of low-wage workers would have multiple—and conflicting—impacts on such higher-income families, depending on whether the focus is on the *number* of high-wage workers or the *amount* of family income for such high-income families.

On the one hand, CBO estimates that increasing the minimum wage from $7.25 to $10.10 per hour would actually boost the number of high-wage workers:

> Low-wage workers are not the only ones whose employment can be affected by a minimum-wage increase; the employment of higher-wage workers can be affected as well, in several ways. Firms that cut back on production tend to reduce the number of both higher-wage workers and low-wage workers. But once a minimum-wage increase makes higher-wage workers relatively less expensive, firms sometimes hire more of them to replace a larger number of less productive low-wage workers. Another factor affecting higher-wage workers is the increase [caused by the higher minimum wage on net income and, thus, net spending] in the economywide demand for goods and services. All in all, a higher minimum wage tends to increase the employment of higher-wage workers slightly, according to CBO's analysis.[10]

On the other hand, CBO estimates that a higher minimum wage would reduce the net amount of family income of the high-income families above 600% of poverty. The reason? "The increase in earnings for the few low-wage workers living in that last group

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[8] *Id*., Table 4, p. 14. CBO's methodology was as follows: "Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services. Results are weighted by the number of people in the family; for example, when CBO calculated the averages, a family of three would be represented three times."

[9] *Id., p*. 11

[10] *Id.,* pp. 7-8.

of families [i.e., above 600% of poverty] would be more than offset by income reductions, in part because the losses in business income and in real income from price increases [attributable to a higher minimum wage] would be concentrated in those families."[11] CBO's estimate of the net decline in income of families above 600% of poverty in aggregate dollars is $17 billion. For an average family in this group, CBO estimates that the average decrease in income would be $700. As a proportion of the income of these high-income families, however, CBO estimates that the drop in net income would average 0.4%.[12]

What's the bottom line? Taking all job losses and gains into account, and taking all earnings losses and gains into account, CBO's estimate—offsetting the $19 billion gain in higher net income for families *below* 600% of poverty vs. the -$17 billion loss in net income for families *above* 600% of poverty—is that three-step increase in the minimum wage from $7.25 in 2014 to $10.10 in 2016 was a positive $2 billion.[13]

Both the CBO analysis and other studies have identified other impacts—some negative, some positive—of raising the minimum wage. As noted above, one impact identified by CBO would be to reduce the number of officially poor persons by 900,000.[14] Other studies have pointed to another impact of particular relevance to a very large increase in the minimum wage (such as going from $7.25 to $10.10 per hour, a nearly 40% increase): the extent to which unemployed or underemployed adults substantially increase their "work effort," more energetically pursuing and more rapidly filling job vacancies, when such a large increase greatly increases for some of them the economic reward when working at the lower end of the wage scale.

It should also be noted that the CBO analysis assumed a hike in the minimum wage starting in 2014 and ending in 2016. Since 2016, the U.S. economy has improved. Unemployment is lower; fewer employees work at the minimum wage while more work at higher wages; and incomes are somewhat higher. Also, since 2014, additional states have pushed their minimum wages further above $7.25 per hour. On January 1, 2016, over a dozen states—including populous ones like California, Massachusetts, Michigan, and New York—raised their minimum wages. The new wage rates generally exceed the halfway point between $7.25 and $10.10 per hour.[15] It seems logical that these changes will reduce *both* the negative *and* positive effects of a future increase in the federal minimum wage from $7.25 to $10.10. There is less harm (job elimination) to be done, and less gain (higher income) to be won.

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[11] *Id.*, p. 11.
[12] *Id.,* pp. 3, 14.
[13] *Id.*, p. 3.
[14] *Id.,* Table 1, p. 2.
[15] Will Kimball, Economic Policy Institute, *14 States Raised Their Minimum Wage at the Beginning of the Beginning of 2016, Lifting the Wages of More Than 4.6 Million People*, January 21, 2016, Table 1, http://www.epi.org/blog/14-states-raised-their-minimum-wage-at-the-beginning-of-2016-lifting-the-wages-of-more-than-4-6-million-working-people/