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HIGHER MINIMUM WAGE: DEAL OR NO DEAL?

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Whether one agrees with George Will's recent comments on the minimum wage or not, the issue is too important to be muddied by misinformation. To illustrate, the statements made in Will's opening paragraph are based on factual errors. First, according to the U.S. Bureau of Economic Analysis real GDP slipped by 3.5 percent in 1938 when the federal minimum wage became effective, not by the 6.2 percent reported by Will. Second, though he asserts that the unemployment rate was 19 percent in 1938, there are no reliable statistics on unemployment until the *Current Population Survey* was established in 1940. Third, his claim that the New Deal failed to end the Depression simply is not borne out by the evidence. Based again on BEA data, with the exception of 1938 real GDP increased every year between 1934 and 1940 by at least 5.3 percent. In 1936 the economy grew by 12.9 percent.

Further, the federal minimum wage of 25 cents per hour became effective in the fourth quarter of 1938 (October 24); in the following year, real GDP increased by 8.1 percent. The minimum wage was raised to 30 cents per hour in the fourth quarter of 1939 and real GDP in 1940 climbed by 8.5 percent. During these years, for sure, there was more to the performance of the U.S. economy than the minimum wage. Government expenditures were rising due in part to the depressed economy and the outbreak of war in Europe and Asia. From 1933 through 1940, the only year in which real government spending declined was 1937 (by 3.6 percent). The following year, as noted above, real GDP declined by 3.5 percent. Does it make more sense to attribute the poor performance of the U.S. economy in 1938 to the minimum wage that became effective in the fourth quarter 1938 or to the decline in government spending in 1937?

Additional comments are necessary. First, even accepting Will's claim supported by unnamed sources that a higher minimum wage actually causes a drop in school enrollment among those under age 18, he does not mention that a subminimum wage of $4.25 per hour applies today to persons under age 20 during the first 90 consecutive calendar days after they are hired.

Second, no doubt a higher state minimum wage is an inducement to employers in that state to relocate to other states where only the lower federal minimum applies. However, Will does not take into account that if a state with a higher minimum wage also has higher labor productivity, the overall cost of production can by higher, not lower, in the low-wage state due to lower labor productivity. For Will's

argument to hold water, it is necessary to establish that the cost of production, not just the minimum wage, is lower in those states that pay only the federal minimum of $5.15 per hour.

Third, Will accurately reports that 1.9 million workers earn the federal minimum wage or less and that about half of those workers are under age 25. What he does not mention is that the very same source of that information – a Bureau of Labor Statistics study – also states that "the actual number of workers with earnings at or below the prevailing minimum is undoubtedly understated."

Finally, the most recent data available indicate that in 2005 the rate of poverty for families with no workers was 27.3 percent. With one worker in the family, the poverty rate is 15.0 percent; with two or more it falls to 2.2 percent. Among families with two or more year-round full-time workers, the rate of poverty drops below one percent.

It follows, that whatever happens in Washington regarding the federal minimum wage, the general public has learned this one important lesson – escape from poverty depends on being part of a family with two or more workers and that means essentially a married-couple family.

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