The Pennsylvania Economy and the Minimum Wage

Testimony of Marc Stier, Director of the PA Budget and Policy Center to

Commerce Committee

PA House of Representatives

Discussion of the importance of raising the minimum wage has often been too narrowly focused on how it affects workers who make low wages.

I don't want to diminish the importance of raising their wages. That so many people—people who are not teenagers and not just starting out in life, and that often have families— work so hard for wages that cannot support a family is awful for them and is morally unsustainable for all of us.

But raising the minimum wage is not just a policy that is important for low-wage workers. It is important for all working people and the American economy as a whole.

One way to see this is to think about the corporate opponents of increasing the minimum wage who often make an odd combination of arguments. They say people in their businesses make $15 an hour or more now. And then, in the next breath, they say that increasing the minimum wage will lead to a massive loss of jobs.

This is contradictory. If the first point is true—and it mostly but not entirely is—the second point can't be true.

But we can learn something about why corporations—which fund much of the opposition to raising the minimum wage—care about it when it would have so little direct impact on thems.

The reason this: An increase in the minimum wage is not only about helping low-income workers do better—although it is certainly about that. It's about changing the rules that govern our economy so that almost all of us do better, not just in the immediate future but over the long term. Doing better, however, means raising the share of the benefits of economic activity that flow to workers rather than the owners and top executives of the big corporations that dominate our economy.

Why do we need to do that? Because over the last 40 years the opposite has been happening. Wages for working people and the middle class have been stagnant while corporate profits and the incomes of the top 1% have skyrocketed; (link to billionaires' report?) [For data on the income shares of the US population from the bottom 50% to the top 0.001%, see Tables II: distributional series, especially Table A1.]

This transformation didn't just happen. It's not the necessary result of a free market economy. Talking about the economy as if it were a natural thing that's not subject to the rules we choose is an ideological dodge. It leads us to forget that the political and legal changes made at the behest of the largest corporations in America deliberately tilted the economic playing field to the advantage of these corporations and against the working and middle classes as well as against small businesses.

What were those changes?

First, lawmakers allowed the inflation-adjusted value of the federal minimum wage to decline sharply [, losing 30% of its value since 1968.] Relative to workers' productivity, the value of the federal minimum wage today is now only about a third of its 1968 value. [FYI Marc: Regular Congressional increases in the minimum doubled its inflation-adjusted value from the late 1940s to 1968—so that low-wage workers' earnings received a share of our expanding economic pie. If Congress had maintained that "shared prosperity" approach since 1968, the minimum wage today would be $21 per hour.]

Second, changes in labor law and regulations made it harder for unions to organize.

Third, corporations were allowed to grow larger and combine which gave them greater power not only to raise prices but to hold down wages as well as the prices they pay their small business suppliers for their goods. When large businesses have too much power in bargaining with employees (what economist's call monopsony power) they choose not only to pay less but employ fewer workers. They can make higher profits paying workers less even if that means producing less and paying workers less (and if they are large enough to have some control some monopoly over sales they can prices, too). Corporate power doesn't just affect unskilled workers, although it certainly does as chains like Jimmy Johns's require workers to sign non-compete agreements preventing them from jumping to Subway for an extra quarter an hour. Giant tech companies were recently forced to pay back wages to some of the most technologically skilled workers in America because an informal agreement not to "poach" workers held wages down.

Changes in the rules boosted corporate profits. But it didn't lead to faster economic growth any more than cuts in corporate taxes did for one simple reason: Personal consumption is 70% of the economy and if wages are stagnant then consumption and economic growth will be as well. Low interest rates and high stock markets have dropped the cost of capital to historically low levels. But business investment in expanded capacity is stagnant partly because of slowly growing consumption and for another reason as well: businesses have little reason to invest in technology that enhances worker productivity if wages are not rising.

The corporate sponsored changes in our economic rules have thus hurt everyone except the richest people in our country. That's why we should go back to the rules that in the middle of the twentieth century raised wages and consumption and stimulated the investment that created fast growth in productivity and the economy as a whole.

The first step, but not only step, is to raise the minimum wage. That will raise wages not only for those below the new minimum but those immediately above it. We estimate that 1.6 million Pennsylvanians- or a quarter of the work force- will get a raise when the minimum wage reaches $15 an hour. Those higher wages will set off a positive economic dynamic that will protect us from any negative consequences of raising the minimum wage.

Huge corporations with market power relative to workers, suppliers and consumers aren't going to raise prices, in part because they mostly do pay higher wages and in part because when large companies have the power to holds wages down, an increase in the minimum wage will lead them to employ more workers and produce more and hold prices steady or even lower them. A number of cross-state studies, including one done by the Federal Reserve Bank of New York, that compared jobs and employment along the New York-Pennsylvania border has shown that employment in typically low-wage industries actually grew a bit faster in New York than Pennsylvania as the minimum wage grew. An earlier study by the Keystone Research Center comparing Pennsylvania to the states surrounding it that had increased the minimum wage found the same result.

Price may go up a little among small businesses in competitive markets but if they go up for all businesses none will be hurt. And because wages are only a portion of their costs, they will go up far less than wages. More importantly, when the minimum wage goes to $15 an hour, $6 billion in additional wages will give those small businesses many more customers. Higher wages in the small business sector will also reduce turnover and training costs and boost morale, increasing productivity in the short run, making it easier for businesses pay higher wages without large price increases.

In the long run, higher wages throughout the economy will spur the investment in productive capacity that raises the living standards for everyone. Critics of the minimum wage say there may be fewer checkout clerks. But is that really a problem if there are far more better jobs that pay better wages for those who design, produce, install, and service the machines that replace them?

The American economy once grew fast because our highly educated and trained work force received high wages that created a huge consumer market and drove investments that increased productivity. Raising the minimum wage then will rightly benefit those who make the lowest wages most but it will benefit all of us as well. Even the owners of huge corporation might do better, but they will have to be satisfied with a smaller share of a growing pie, not the larger share of the collapsed souffle that is the American economy for the working people and the middle class today.