Labor Day: Minimum Wage, Living Wage

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(Author's note: This is a second in a series of reflections on economic issues and holidays. Watch for the upcoming one in honor of the autumnal equinox on September 22nd.)

The first Monday in September is Labor Day in the United States—unlike most of the rest of the world, where Labor Day is celebrated on May 1st. So it seems appropriate on Labor Day to ask the question, as expressed in the Bible (Luke 10:7), is the worker worthy of his hire? And also the companion question, less frequently asked: is the wage worthy of the worker's effort?

Work is a central part of our lives. It provides income to pay for the food on our tables and the roof over our heads. It offers dignity, and meaning, and a sense of making a contribution. It may offer companionship and satisfaction. It can also take over our lives and crowd out other meaningful aspects of being human—relationships, hobbies, community involvement, learning, play. So work and earnings is a good reflective issue for this end of summer holiday.

In 1957, when I was working at my first part-time job as a retail sales clerk, the minimum wage was $1.00 an hour. In 2009 dollars, it was equivalent to $7.87. The minimum wage was enacted in 1938 as part of the Fair Labor Standards Act. The first minimum wage was 25 cents an hour. By 1995, the minimum wage had risen to $4.25 an hour (it was $3.35 for most of the 1980s), worth less in purchasing power than my dollar an hour at age 16. It was raised again to $4.75 in 1996 and then to $5.15 in 1998, where it stayed until 2007, reaching its all time low in purchasing power in 2006 at $4.04 in 1996 dollars. In 2007 the minimum wage rose to $5.85, to $6.55 in 2008. This year, it jumped again to $7.25, almost equivalent to what I was earning in 1956.

Nothing generates more controversy among economists than the minimum wage. Some economists look at this issue through the lens of efficiency only. Assuming that there are perfectly competitive markets with equal power on both sides of the market, these economists argue that raising the minimum wage will just reduce jobs, increase unemployment, and encourage employers to hire "off the books." Wages are based on the value of the worker's product, and some workers can't produce much value. Others worry that it will result in inflation. When the minimum wage rises, there is a ripple effect on the whole wage structure as those just above the new minimum also get a bump up in wages to maintain wage differentials between newer and longer-term workers, or less and more skilled jobs. Those increased labor costs translate into higher prices, although probably not in today's economic climate.

Other economists, who see an economy with imperfect competition, hard-to-measure value of worker contributions, and unequal distribution of economic power, look at the minimum wage through the lens of equity or fairness. These economists believe that a minimum wage sets a reasonable standard for those who are uncertain about just how much to pay or how much to ask for, and rewards people for work rather than idleness with an income that puts them, if not above the poverty threshold, at least closer to it. A wage of $7.25 an hour for 2000 hours a year (40 hours a week, 50 weeks) still provides an income of only $14,500 a year.

Many of these dissenting economists also question whether increasing the minimum wage really causes unemployment. Evidence about actual unemployment effects in the economics literature is mixed, but the measured effects are generally small. Even if the unemployment rate does rise, at least some of the increase is accounted for by an influx of new workers into the labor market. These new workers had not sought work at the old minimum wage because it didn't pay enough to offset the costs of child care and transportation to work!

Even economists who oppose the minimum wage aren't necessarily hard-hearted. They might argue that we should offer other kinds of assistance to those who work hard but don't earn enough. The Earned Income Credit on the income tax has been a major source of poverty reduction among the working poor in the last two decades. So the minimum wage debate raises difficult questions about efficiency and fairness, and about whether markets work well enough on their own or whether they need some occasional guidance and direction.

There is also a widespread belief that minimum wage workers are mainly teens working for spare change while getting some valuable job experience. It's true that teens are most likely to see fewer job opportunities as a result of increases in the minimum wage, but the fact is that most minimum wage workers (about 70%) are adults, many with children.

While economists have been arguing over the minimum wage, social justice activists in the United States have taken the battle one step farther. They argue that the worker is not only worthy of his hire, but worthy of being paid enough to rise above poverty. Hence, the living wage campaign. A living wage in most places is quite a bit higher than the minimum wage of $7.25 an hour. It varies from place to place, mainly reflecting regional differences in the cost of housing. Living wage campaigns have sprung up all over the country, from Maine to California, Michigan to Georgia.

The Atlanta living wage campaign came up with two measures of what the hourly wage would have to be to lift a family out of poverty. One measure used was an annual income at 130% of the poverty level, which translated to a minimum wage of $11 an hour. The other was based on a minimum needs budget for a family of three, which came to $13.50 an hour. A local living wage would be lower in rural parts of the nation, higher in urban areas in California or the Northeast.

Typically, living wage campaigns are aimed at local governments. Sometimes a major public employer (like a large university) or even a private employer is the object of a campaign, but local governments are a good place to start, because they are often major employers, and they can extend the living wage requirement to their suppliers, which broadens the reach. The first step is to pass an ordinance that ensures the city or county is paying all its workers at least a living wage. The second is to require contractors and suppliers who work with that local government to agree to pay a living wage. A living wage set by a local or state government will influence wage levels in the area's private and nonprofit sectors as well.

So as you rest from your labors on this Labor Day, consider the plight of those who work long hours at or just above the minimum wage, whose long hours at often difficult and unrewarding jobs is not enough to get them into decent housing and pay for the essentials of life. What do we owe them? Should we second-guess the market, and if we do, will there be fewer jobs? How do we balance freedom of contract with a commitment to a just wage? Market wage, minimum wage, living wage. There are no easy answers.