

There Is a Moral and Economic Case for Raising the Minimum Wage

Ethics, 2015

"Let's raise the [minimum wage](#) to make it easier to reform the process and ultimately reduce the [subsidies](#) for those who do as we ask and fulfill their part of the social contract."

In the following viewpoint, Norm Ornstein argues that there is a strong argument for raising the current federal minimum wage. Ornstein claims that for many people working at full-time jobs for minimum wage, there is no way for them to make ends meet except by taking government subsidies. Ornstein contends that the social contract demands that [employment](#) pay enough for people to live decent lives, and he argues that raising the minimum wage can help eliminate the need for government welfare. Ornstein is a political scientist and resident scholar at the American Enterprise Institute.

As you read, consider the following questions:

1. According to the author, there are efforts under way in California to raise the minimum wage to what by 2016?
2. What is the annual income of a person working full time at the federal minimum wage, according to the author?
3. In what manner does Ornstein say that the web of subsidies and the current minimum wage can create disincentives to work?

One of the most interesting recent political and policy developments is the involvement of Ron Unz in a major effort on behalf of a referendum to raise California's minimum wage to \$12 an hour by 2016.

The Minimum Wage

Unz, a libertarian Silicon Valley entrepreneur, previously shot to fame by successfully pushing a referendum to replace bilingual education in California with English-immersion programs (which led to a sharp rise in SAT scores). He also ran for the GOP nomination for governor of California in 1994, losing to then incumbent Pete Wilson.

Why would Unz, who has written regularly for the *American Conservative* (he served as publisher until recently), favor an increase in the minimum wage, when one would be hard-pressed to find a single Republican in Congress who would do so? He says, "We have all these low-wage workers who are getting \$7.50, \$8, or \$9 an hour, and because they earn such small wages, the government subsidizes them with billions or tens of billions of dollars of social-welfare spending that comes from the taxpayer. It's a classic example of businesses privatizing the benefits of their workers while socializing the costs." McDonald's recently took his point one giant step further by urging its low-wage employees to get food stamps.

The past few weeks [in fall 2013] have brought an intense focus and discussion on the minimum

wage, at the national as well as local and state levels. Rep. George Miller, D-Calif., and Sen. Tom Harkin, D-Iowa, both longtime champions of increasing the minimum wage, have a bill to raise it nationally to \$10.10—still leaving the earning power lower than it was in 1968 when the minimum wage was \$1.60. In New Jersey, a proposition to raise the state minimum wage to \$8.25 and index it to [inflation](#) passed handily over the opposition of Gov. Chris Christie. Indeed, 19 states have higher minimum wages than the national one of \$7.25 an hour (nine states have either a lower rate than the national figure or no minimum at all). In Washington State, a local referendum in the community of SeaTac, home of the Seattle airport, to raise the minimum wage to \$15 passed narrowly over the intense opposition of the business community. We now have a body of research by top-flight economists showing that an increase in the minimum wage does not reduce employment or significantly hinder the economy.

The recent focus is in part because of some clear realities in the contemporary, sluggish American economy. One is that where jobs exist, they tend to be at the lower end of the scale. A second is that no one with a family working full time at the minimum wage can possibly survive without major assistance. Keep in mind that if one works 40 hours a week, 52 weeks a year at \$7.25 an hour, that means an annual income of \$15,080—assuming no time off and no sick days. Can any of us imagine trying to house, clothe, and feed a family—while paying for transportation to work, health insurance, and other necessities of life, much less going to an occasional movie—on \$15,080 a year, or \$13,926 after FICA [Federal Insurance Contributions Act] deductions? Imagine paying market rates for rent in the D.C. area, where a tiny apartment might take up two-thirds of the income, and require an hour or longer commute to get into the city, with subway costs taking up an additional 10 percent or more. Not much left for food or other necessities, even with a zero income tax rate. Imagine if you need child care!

The Web of Subsidies

Here is the infamous Mitt Romney quote from the 2012 campaign: "There are 47 percent of the people who will vote for the president no matter what. All right, there are 47 percent who are with him, who are dependent upon government, who believe that they are victims, who believe the government has a responsibility to care for them, who believe that they are entitled to health care, to food, to [housing](#), to you name it—that that's an entitlement. And the government should give it to them. And they will vote for this president no matter what.... These are people who pay no income tax.... [M]y job is not to worry about those people. I'll never convince them they should take personal responsibility and care for their lives." That 47 percent includes those working at or near the minimum wage.

Whether or not most of those who work 40 hours a week at the minimum wage or near it and are supporting families believe that they are entitled to food and housing, the fact is that they are doing what we have long believed was fulfilling our basic social contract—work hard, be productive, and you and your family can live a decent life with a place to live, food on the table, clothes on your backs, and other necessities. In the past, Republicans thought that the market ought to set wages, and that a combination of government devices—including the earned-income tax credit [EITC], housing subsidies, food stamps, Medicaid, and other social-welfare programs—could fill in the gaps to make that social contract work, while also trying to remove disincentives from work via welfare reform. There is not only a continuing belief in some quarters that markets should set wages, but strenuous efforts to

make deep cuts to food-stamp funding and slash other programs that help low-income workers—condemned as "takers."

It is a fact that our economic system continues to have big gaps. The web of subsidies can create real disincentives for those at the bottom of the scale who want to work but would actually lose more benefits than their minimum-wage income would bring in. The effective marginal tax rate for a couple both making low wages if the second person works can be more than 100 percent because of benefit formulas. A couple of weeks ago, when I wrote about the war on food stamps, I mentioned a D.C. woman who is struggling to feed herself and her daughter, but calculated that she would need a job paying \$15 an hour to do better. That is an artifact of poorly constructed, patchwork policies. Liberal cant notwithstanding, there is a culture of dependency that can discourage work among many. But the fact is most people out of work want to work—it defines their self-worth.

How about a new approach? Let's try to alter the incentive structure to make work pay, while maintaining devices like EITC, rent subsidies, and the health insurance subsidies under the [Patient Protection and] Affordable Care Act so that those who are working can support their families and live decent lives. As Jared Bernstein has written, let's provide a tax credit when two people in a family want to work so that their work pays. Let's do more robust job training instead of cutting funding, and experiment with innovations like the German apprenticeship program and their work-sharing policy. And let's raise the minimum wage to make it easier to reform the process and ultimately reduce the subsidies for those who do as we ask and fulfill their part of the social contract.

Further Readings

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