Why I Oppose a $15 Minimum Wage in Pasadena

While a $15 minimum wage law has obvious appeal to those who would like to do more to help the working poor in Pasadena and elsewhere, many economists who share that same goal, including myself, believe there are much better alternatives that don't end up hurting this very same group of workers. While a worker currently earning less than $15 an hour will clearly gain from the minimum wage increase as long as she keeps her job and her working hours aren't reduced, in the longer run there are serious possible detrimental effects to a minimum wage increase of this magnitude, including a reduction in the future growth of jobs for low wage workers in Pasadena as well as a reduction in the on-the-job training that could otherwise accompany such jobs.

Readers will have no doubt heard the arguments advanced by some economists that a majority of studies have shown that the reduction in jobs that has resulted from the current minimum wage (and past increases in it) are quite modest, on the order of about a 3% reduction in employment for every 10% increase in the minimum wage. I actually do not quarrel with such consensus estimates. However, I would quickly note that these past studies have focused on increases in the minimum wage that are well below 50% of the median hourly wage; they have not dealt with increases of the magnitude proposed in Pasadena. That is why even *The Economist,* a respected weekly news magazine that supported Obama in the past two Presidential elections, recently characterized (in its July 23rd, 2015 edition) an increase in the minimum wage to $15 per hour (or 77% of the median hourly wage) as "reckless". They wrote, "By moving towards sharply higher minimum wages, policymakers are accelerating into a fog. Little is known about the long-run effects of modest minimum wages. And nobody knows what big rises will do, at any time horizon." So, even if the job losses in the short run turn out to be relatively minor, over time the minimum wage increase can have two more serious detrimental effects on the plight of the working poor: 1) they can reduce the otherwise growth of new jobs for this group of low skilled workers as employers substitute more new technology (think of McDonald's) or locate to cities without a $15 minimum wage; and 2) the jobs that our offered will provide less on-the-job training than they otherwise would. The latter effect is not often noted but is especially important to the future productivity of low skilled workers, since their lack of skills is the main culprit in their poor earnings prospects. Firms simply can't afford to pay these workers $15 an hour AND to provide such on-the-job training. The reduction in the growth of jobs for these low skilled workers going forward will be magnified if there are surrounding cities that do NOT increase their minimum wage laws to $15/hr.

These are some of the reasons that many economists who want to help the working poor favor the federal Earned Income Tax Credit (EITC), which is the most important policy at the federal level for aiding such workers. I favor the federal EITC as well as recent proposals by the State of California to offer its own state EITC to complement the federal policy. The EITC is better targeted at low income households than the minimum wage, and it relies on federal taxpayers to deliver the more than $62.9 billion in benefits to 27.9 million families (as of 2011), *without the detrimental effects noted above.* My final argument is that unlike the EITC, an increase in the minimum wage penalizes the very groups that are currently helping low wage workers the most, namely the owners and customers of those firms that are currently employing such workers. How fair is that?

Robert L. Moore, Elbridge Amos Stuart Professor of Economics, Occidental College.