THE JOURNAL OF COMMERCE WEDNESDAY JULY 17, 1996

# Beyond the minimum wage

BY STEVE CHARNOVITZ

After months of delay, the U.S. Senate has voted to lift the minimum wage by 90 cents an hour. Because many differences remain between the House and Senate bills — both of which contain a variety of small tax cuts and preferences — there is still some possibility the wage increase will stay tangled in Congress. The most likely outcome, however, is that election year politics will push the wage hike through. Polls show the public supports a minimum wage increase by 4 to 1.

Since 1991, the minimum wage has been frozen at $4.25. Because of inflation, its value has eroded about 14%. Thus, if the 1991 level was "right," the level today must be too low. If a country is going to have a legislated minimum wage, then it should be adjusted for inflation.

The most pragmatic solution would be to depoliticize the minimum wage by automatically indexing it for inflation. Other countries, such as France and Spain, do so. In the United States, federal income tax brackets, exemption amounts and other key thresholds are adjusted for inflation annually. There is no logical reason to index federal taxes (and social security benefits), but not federal regulations.

Many Republicans object to an increase in the minimum wage on the grounds that it would cause job losses among the poor. Although the extent of those losses is in dispute, most economists would agree that some jobs will disappear. While Republicans present this concern as an argument against a minimum wage increase, it is actually an argument against having a minimum wage at all.

Raising the minimum wage by 90 cents is a flashy election-year gesture, but it is an inefficient approach to the problem of low-wage workers. Indeed, it would still leave millions of people below the poverty level.

Since the Congress is not going to raise minimum wages by $2 or $3, other economic means are needed to solve the problem of persistent poverty. The United States also faces serious labor market problems of underemployment, stagnant real wages and job insecurity. A higher minimum wage does not address these conditions.

The idea of the "fair" or "living" wage has a venerable history. It was an important leitmotif in the late 19th century campaign by social reformers to humanize the workplace. The Treaty of Versailles called for a "wage adequate to maintain a reasonable standard of life." The Fair Labor Standards Act, passed during the New Deal, was the right move for that era. But we cannot justify the minimum wage merely for sentimental reasons.

In considering the desirability of a minimum wage, it is important to distinguish two motivations for it. First is the idea that employers should pay more because human labor is worth a minimum amount. Second is the idea that workers need to receive a living wage.

The first motivation is not compelling. In capitalism, we leave it to the market to determine the proper reward for the value contributed by workers. The market is not perfect, but it is probably accurate for low-skill workers.

The second motivation is more compelling. Poverty is a social problem requiring a public solution. But while a minimum wage boosts some wage-earners, it hurts others by making it illegal for them to continue working. Thus, the minimum wage alone cannot succeed in ending poverty or raising incomes.

Instead of spending so much time debating the minimum wage, the Congress should focus attention on the more significant gaps in U.S. labor market programs. The biggest deficiency is that the government doesn't do enough to help workers obtain and upgrade their skills. We need more incentives for employers to provide training and for workers to go back to school. Yet the 104th Congress has done nothing. Indeed, the one tax incentive that existed — the exclusion of employer-provided educational assistance from taxable compensation — was allowed to expire in 1995. The Senate bill would reinstate this.

Another problem is that the federal government taxes employment very heavily. When you tax something, you reduce it. While payroll taxes are linked to the larger issue of Social Security reform, there is little inclination in Washington to address the negative impact of payroll taxes on jobs.

President Clinton says he wants the minimum wage bill passed quickly "so Americans can get their raises as soon as possible." Expressed in that crude, demagogic way, the myopia of the administration's labor policies become clear. Is this raise justified by the higher productivity of low-wage workers? Will the minimum wage boost employability? Both answers are no. Rather than tinkering with the minimum wage, the federal government should be searching for more effective policies to help low-skill workers and their families.


**"Gentlemen, it's getting difficult to keep help. From now on, our policy will be 'the clerk is always right.'"**

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