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The New CBO Report on the Minimum Wage

Michael Sean Winters | Feb. 19, 2014 Distinctly Catholic

The new CBO report [1]on the effects of raising the minimum wage will, of course, be consumed by partisan and ideological talking points. But, the arguments deployed will show how the political and economic biases of each side do, and do not, reflect the kind of analysis applied by Catholic social teaching.

The CBO projects that if the minimum wage is raised to $10.10 an hour as proposed by President Obama, 15 percent of workers will see their incomes increase, resulting in some 900,000 people being lifted above the poverty line. Conversely, the CBO projects that the increased labor costs will encourage firms to avoid hiring more people, resulting in the loss of 500,000 jobs to the overall economy. If you are one of the 900,000, you will be happy to be lifted out of poverty. If you are one of the 500,000 who lose a job, or fail to get one, your circumstances would be worse.

I am not an economist and, in the event, the economists are divided although I think most have concluded that raising the minimum wage has very little effect on the employment rate. And, the CBO allows that its projection is an estimate, that the rate of job loss could be ?very slight? or it could double to one million lost jobs. I will let the economists fight about their projection models.

As regular readers know, for seventeen years I ran a small business, a restaurant which, like almost all restaurants, had many minimum wage employees. It is true that an increase in labor costs would make one more cautious about hiring a new employee. But, in an independent restaurant, you are monitoring, and trying to manage, your labor costs all the time anyway. Labor costs and cost-of-goods are your two biggest expenses in a restaurant. Nonetheless, the decision to hire a new employee or not has less to do with labor costs than it does with the rhythm of your business. You hire a new waiter when you realize that people have been waiting too long to have their order taken. You cut back when you realize waiters do not have enough to do, that the drop in customers does not warrant so many staff. This kind of adjustment is made because of the seasons every year. If we could find a way to repeal winter, now that would help the restaurant industry.

Restaurants are competitive businesses. Chains can operate at lower margins, but independent restaurants, bookstores, liquor stores, etc., they must always be watching their labor costs. But, a restaurant does not close when the cost of electricity goes up, even though that is a large expense. If the cost of liquor goes up, you don?t close the bar. If your rent goes up, you don?t close. No, in each of these cases, you accept a lower profit margin or, more likely, raise prices, slowly, to absorb the new costs. Because the minimum wage increase would be nationwide, no small business would be undercut by competition ? your competitors would also be raising their prices over time. This inflationary push will be gradual, as is the proposal to raise the minimum wage. You do these things over time.

The best restaurant town in America is San Francisco. The minimum wage there is now $10.55 an hour. It is true that some restaurants have moved across the bay to Oakland, but most restaurants in San Francisco are still doing fine. Besides, the insane rents in the City by the Bay are more problematic than the increase in the minimum wage. And, with more money in their pockets, waiters and busboys and bartenders will likely plow their higher wages right back into the economy. Wealthy investors may be able to use additional revenue to buy

more stocks or strengthen their real estate portfolio. For most of us, a little more in pocket means we can get a car, or go out more often, or save for the kids? college or, in my case, the kids? vet bills.

Republicans will add this new CBO report to their basic narrative that President Obama?s big government solutions are job killers. This is their line of attack on the Affordable Care Act. Five years on, they are still complaining about the stimulus in 2009 because it did not create as many jobs as hoped or, to be more precise, the recession which the stimulus was designed to ameliorate, turned out to be worse than anticipated. And, with unemployment still above seven percent, the charge of job killer resonates. But, it is interesting to me that my conservative friends treat economic laws as if they had been engraved in stone on Sinai, and were written by Austrian gods named Hayek and von Mises. They believe that if taxes go up, jobs go down. (How, then, to explain the 1950s?) They believe that government can?t really stimulate the economy, except when it comes to military spending in GOP districts. They believe that government intervention in the economy is prima facie a bad idea, especially at the federal level, even if a great deal of justice can be achieved by such intervention. Raising 900,000 people out of poverty is a great deal of justice. And, they are always on the alert for any government form of assistance which they think would disincentivize work.

Democrats have their blinders too. They have decided to play on the GOP?s home field when discussing the economy, arguing statistics and projections, rather than starting with moral facts. So, they never seem to point out that a lower minimum wage is itself a disincentive to work: Why work your tush off if you do not earn enough to support your family? Or, they accept the language that sees labor as one commodity among many. Or, they fail to note that economic activity is the result of a vast array of factors, of which government policies are only one slice. You can bet Team Clinton will not be allowing such complexity, because they want to recall the boom years of the 1990s and give themselves the credit, even though it was the enormous gains in productivity brought on by the internet that really generated most of that boom.

In Catholic social teaching, workers are entitled to a living wage. Period. A wage should be able to allow one to support a family. The rights of workers, and the right to a job, is more essential and more pressing than the right to profit. Government should not intervene unless necessary but must intervene when lower levels of authority ? personal, familial, community, municipal and state levels ? have been unable to achieve the basic justice required of any society. If the ACA has an anti-stimulative effect, and I do not concede it does, that is a price the society should pay to guarantee health coverage to all. If a higher minimum wage has an anti-stimulative effect on the job market ? again, a big if there ? it is the responsibility of business, civic, religious, and political leaders to devise other means of addressing that effect: The right to a living wage is foundational. The economic laws of the laissez-faire brigade are not.

If we accept the CBO projection, the Catholic answer, then, is not to refuse an increase in the minimum wage. The Catholic answer is to find ways of helping those who will lose a job or fail to find one. But, I think the CBO overstates their case. I am just old enough to remember Automats. They were not such a big hit, apart from their novelty. People would rather be waited on by a person than a computer. I continue to do almost all of my banking in person, not online, and just so, when I hear about some hackers stealing credit data at Target, I sleep soundly, more soundly then my friends who prefer to do their banking with their thumbs. I suspect that most small business would adapt just fine to a gradual increase in the minimum wage and many customers at many businesses will still want a person, not a computer, dispensing the service they desire. Maybe I am just old-fashioned. Maybe, too, I have been swimming in the waters of Catholic social doctrine long enough that the prospect of a higher minimum wage simply warms my soul.

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[1] http://www.washingtonpost.com/blogs/wonkblog/wp/2014/02/19/wonkbook-what-you-need-to-know-about-the-cbos-minimum-wage-report/