



The Daily Dish

The CBO Weighs in on the Fight for \$15

DOUGLAS HOLTZ-EAKIN | JULY 9, 2019

Eakinomics: The CBO Weighs in on the Fight for \$15

Yesterday the Congressional Budget Office (CBO) released its [analysis](#) of options for increasing the federal minimum wage — most notably the \$15 minimum wage that has been the focus of the “Fight for \$15” movement and embodied in the [Raise the Wage](#) legislation passed out of the House Committee on Education and Labor. (CBO also looked at \$10 and \$12 options. I will leave those results for the reader to analyze.)

Specifically: “The first option [considered by CBO] would raise the federal minimum wage to \$15 per hour as of January 1, 2025. That increase would be implemented in six annual increments starting on January 1, 2020. After reaching \$15 in 2025, the minimum wage would be indexed, or tied, to median hourly wages. The \$15 option would also gradually eliminate exceptions to the minimum wage for tipped workers, teenage workers, and disabled workers.” It is worth noting (see Figure 4) that the proposal is by far an outlier (compared to both past and proposed hikes) in both the percentage increase in wages of directly affected workers (above 20 percent) and the fraction of workers affected (about 13 percent).

The basic mechanisms in play are by now [well understood](#). The rising minimum wage will increase pay for those minimum-wage workers who remain employed, as well as for those who would likely see a raise to keep the pay scales in the right order. These pay hikes will come at the expense of those workers who will not be employed, the profits of businesses, and the higher prices that consumers must pay. In CBO’s words:

- Real earnings for workers while they remained employed would increase by \$64 billion,
- Real earnings for workers while they were jobless would decrease by \$20 billion,
- Real income for business owners would decrease by \$14 billion, and
- Real income for consumers would decrease by \$39 billion.

Of course there are lots of uncertainties inherent in the analysis. CBO highlights two: the kind of wage growth that might occur before the proposal took effect, and the lack of unanimity in the research literature on the effects of minimum wage increases. I concur. But I would add that we also do not know what will be the state of the economy in 2025; raising the minimum wage in a recession could be dramatically more damaging.

Stepping back from the details, what does the CBO report contribute? It reminds us that raising the minimum wage:

- Destroys jobs — 1.3 million jobs is the median estimate of job loss;
- It is not a stimulus to economic growth — CBO estimates that total income is smaller than it would be in the absence of a minimum wage hike;
- It is not an anti-poverty program — some 40 percent of low-wage workers are in families with income

- three times the poverty level or more (see Figure 6 in the report); and
- On balance, it is a bad idea.

There are [better pro-work](#), pro-growth, and targeted ways to fight poverty.