The Daily Dish

“Why Should Taxpayers Subsidize Poverty Wages at Large Profitable Corporations?”

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Eakinomics: “Why Should Taxpayers Subsidize Poverty Wages at Large Profitable Corporations?”

That not-so-innocent question was the title of a Senate Budget Committee hearing yesterday. It highlights the fact that the population of working individuals in the United States and the population of social safety net participants overlap. My testimony made three points about this issue.

First, whether the overlap is “large” or “small” is in the eye of the beholder. But, second, regardless of where you land on that question, characterizing this overlap as “subsidizing” employers misses the mark. The presence of government programs as an alternative source of income forces employers to compete for workers – to offer higher wages to induce them to join the labor force and take a job. Far from allowing employers to offer lower wages (“a subsidy”), the social safety net makes employers pay higher wages. Our understanding of the empirical magnitudes is not very precise, but the direction of the impact is clear.

Third, passing the Raise the Wage Act – an increase in the federal minimum wage from $7.25 to $15.00 by 2025 that is included in President Biden’s American Rescue Plan – would be a serious policy error. To begin, it would not eliminate the dreaded overlap: 5.3 percent of full-time workers who make $15 per hour or more are on Medicaid, and 1.8 percent receive food stamps.

Next, it would cost jobs – the Congressional Budget Office (CBO) estimates 1.4 million jobs, and the literature generally predicts cutbacks in labor (in addition to jobs, hours could be cut). That’s because simply mandating a higher minimum wage does not create the income to pay higher wages. Instead, that income has to be taken from someone else, and that someone else will either have reduced hours or will not be hired at all.

It is also extremely unfair. Transferring income from someone without a job to someone with a job is extremely perverse. It flies in the face of the argument that it is a moral imperative to raise the minimum wage.

Finally, now is a terrible time to raise the minimum wage. Roughly 60 percent of the minimum-wage workers are in the hard-hit leisure and hospitality sector. Leisure and hospitality lost 8.3 million jobs last March and April and has only regained a bit more than half of that. Roughly 50 percent of the small firms in that sector closed their doors. Many of those workers and firms will not be able to resume operations at the higher minimum wage. More generally, the CBO points out that the minimum wage hike is a $500 billion mandate on employers. Nobody is confused that a $500 billion tax hike would harm the recovery; doing it in the form of a stealth mandate does not change the impact.

When the economy is back to full employment, there is a case to be made to raising the federal minimum wage a bit and tailoring it to differences in the cost of living across the country. Setting it on track for a one-size-fits-all doubling while trying to recover from the COVID-19 recession is unwise to the point of foolish.