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An Economics Lesson for Joe Biden

If the minimum wage tracked inflation, it would be \$4.07 per hour.

By Michael Saltsman

Speaking at the White House on June 25, Vice President Joe Biden claimed that a higher federal minimum wage was practical and long overdue. “Just pay me [for] minimum wage what you paid folks in 1968,” Mr. Biden said, echoing the argument numerous labor unions, left-wing think tanks and activist groups have made.

The logic goes something like this: Had the minimum wage tracked inflation since 1968, it would today be over \$10 an hour, so Congress should seek to bring it up to at least that amount. There are two problems with this logic. First, it is inconsistent with other Labor Department inflation data. And second, it presumes that entry-level employees can’t get a raise unless the government gives them one.

The federal minimum wage was first set in 1938 at 25 cents an hour. Had it tracked the cost of living since, it would today be \$4.07 an hour, based on Labor Department data and the Bureau of Labor Statistics’ inflation calculator. This is the only logically consistent “historic” value of the minimum wage, and it’s 44% less than the

current amount of \$7.25.

Advocates of a higher minimum wage arbitrarily selected 1968 as the historical reference point. It’s no wonder: That’s when federal minimum wage hit its inflation-adjusted high point.

How about picking other arbitrary years to track the minimum wage and inflation? If you used 1948 instead of 1968, the minimum wage’s inflation-adjusted value would only be \$3.81 an hour. If you chose 1988, the adjusted minimum wage would be \$6.50 an hour.

There are other variations on this argument about inflation adjustments, and they are just as intellectually bankrupt. Earlier this year Sen. Elizabeth Warren (D., Mass.) championed a \$22 minimum wage that tracked economy-wide productivity over the past few decades. But these economy-wide gains—that include, for example, dramatic leaps in productivity in computers and wireless technology—look very different from the changes in productivity in the sectors where minimum-wage employees work. Since the early 1990s, productivity

in food services has increased minimally or not at all.

The basis for both the inflation and productivity arguments is the suggestion that minimum-wage employees are helpless to earn a raise without a government mandate. Nothing could be further from the truth. Economists at Florida State and Miami University found that two-thirds of minimum-wage earners receive a raise after 1-12 months on the job. Even the Labor Department—whose acting Secretary Seth Harris has also been calling for a 1968 minimum wage—published a paper in the *Monthly Labor Review* (2001) showing that the “vast majority” of people who start at the minimum quickly move beyond it after leaving school.

Entry-level employees can only move up the career ladder if they have experience. To get experience, you need a job in the first place. These jobs will be more difficult to come by if Congress embraces the flawed logic of a 1968 minimum wage.

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