

## The Narrative

“Democrats believe that the current minimum wage is a starvation wage and must be increased to a living wage. ...We should raise the federal minimum wage to \$15 an hour over time and index it...”<sup>1</sup>

**2016 DEMOCRATIC PARTY PLATFORM**

“Economic obstacles are not standing in the way of a \$15-an-hour minimum wage. Misplaced caution and political timidity are.”<sup>2</sup>

**NEW YORK TIMES EDITORIAL BOARD**

“In the 21 states that have not enacted any increases in the minimum wage...only Congressional action will provide the adequate wage standard workers deserve and need.”<sup>3</sup>

**NATIONAL EMPLOYMENT LAW PROJECT**

## Reality

The size and diversity of the U.S. labor market make a national lens inappropriate for evaluating minimum-wage policy. While the federal minimum wage appears low by historical and international standards, states with median wages significantly above the national average have all instituted higher state-level minimum wages; some high-wage municipalities have raised their local minimums further still. Taking account of these state and local minimums, the ratio of U.S. minimum wages to median wages is slightly above the average for comparable advanced, market-based economies.

Setting the minimum wage based on what advocates want a market to support—rather than on what the market is capable of supporting—is a recipe for economic disruption that will most badly hurt many of those whom the policy is intended to help. A dramatic increase in the federal minimum wage—to \$15 or even \$12 per hour—would replace a system that tailors policy to local conditions with a system that imposes a single standard from America’s most prosperous cities on less affluent areas that can ill afford it.

## Key Findings

- The ratio of the minimum wage to the median wage in the U.S.—based on the controlling federal, state, and local minimums—is 0.47. This ratio aligns closely with the standard 0.5 benchmark and places the U.S. above the 0.46 average for comparable advanced, market-based economies.
  - ◆ The 13 states with the highest median wage all have a minimum wage at least one dollar above the federal minimum.
- Relative to their median wages, imposing a minimum wage of \$15 per hour in places like El Paso and Myrtle Beach—where the median wage level is less than \$13 per hour—would be the equivalent of imposing a minimum wage of \$30 per hour in Washington, D.C., or Silicon Valley.
- At current growth rates, the national median wage will not reach \$30 per hour for 25 years; El Paso will not reach \$30 per hour for 45 years.

What should the minimum wage be? Economists frequently answer this question by looking to the Kaitz Index—the ratio of the minimum wage to the median wage in a labor market.<sup>4</sup> If the ratio is too low, the argument goes, the wage floor cannot lift low-wage workers toward the middle class. But if it is too high, the wage floor may significantly distort the labor market by forcing wages too far above their natural (i.e., market) level for too large a share of the workforce. Even those who argue for increasing the minimum wage typically acknowledge that a minimum badly misaligned with market conditions would do more harm than good.

In a country as large and economically diverse as the U.S., a single national minimum wage cannot achieve a reasonable Kaitz Index (i.e., near the standard 0.5 benchmark) across local labor markets. A minimum set with reference to the highest-wage markets will, by definition, impose dramatic economic distortions in lower-wage markets. By contrast, the current system—a federal minimum targeted at lower-wage markets, which cities and states can raise—produces tailored policies less likely to cause such harm. Analysis of the federal minimum relative to an abstract national median or an unrepresentative high-wage market pushes national policymakers toward increases that are largely redundant in high-wage markets and counterproductive in low-wage ones.

## America's Real Kaitz Index

The Organisation for Economic Co-operation and Development reports the Kaitz Index values for all member countries: as of 2014, they ranged from 0.37 in the U.S. and the Czech Republic to 0.68 in Turkey.<sup>5</sup> Among other OECD economies most comparable<sup>6</sup> to the U.S., values ranged from 0.39 in Japan to 0.53 in Australia and averaged 0.46. The U.S. level has ranged from 0.3 to 0.5 since 1970;<sup>7</sup> in 2015, it was 0.41 (a \$7.25 federal minimum wage compared with a \$17.40 median wage), according to the U.S. Department of Labor.<sup>8</sup>

These benchmarks suggest that the U.S. minimum wage stands roughly in line with historical standards but somewhat below international peers. However, the U.S. federal minimum wage is only a floor. Many states and cities have higher minimum wages, including Maine (\$7.50 per hour), California (\$10), the District of Columbia (\$10.50),<sup>9</sup> Berkeley (\$11), and Seattle (\$13).<sup>10</sup>

As a result, the Kaitz Index, as experienced by American workers, varies by location and is often much higher than the 2015 aggregate 0.41 level. In fact, the weighted-average Kaitz Index for the U.S., based on the controlling federal, state, or local minimum wage, the local median wage, and total local employment, is 0.47<sup>11</sup>—above Canada's and precisely in line with peer countries.<sup>12</sup>

The 12 states, as well as the District of Columbia, with the highest median wages have all set minimum wages at least one dollar above the federal minimum; only two of 20 states with the lowest median wages have done so. This approach to labor-market regulation has resulted in a pattern of minimums tailored to local circumstances, comparable overall to those in other countries, and closely aligned with the rule-of-thumb Kaitz Index of 0.5.<sup>13</sup>

## The Fight-for-\$15 Fantasy

Seen from the perspective of diverse local labor markets, the idea of dramatically raising the national minimum wage—to \$15 or even \$12 per hour—makes little sense. In some labor markets, a \$12-per-hour minimum wage might be sustainable. In Silicon Valley, for instance, the median hourly wage is \$28.32; in Washington, D.C., \$24.79; and in New York City, \$21.50.<sup>14</sup> Seattle, where the median wage is \$22.93, increased its minimum wage to \$11 per hour in 2015. Preliminary analysis by the University of Washington indicates that the subsequent disruptions were minimal; so, too, were the benefits.<sup>15</sup> Further research on the city's more recent increase to \$13 per

## On the Record

“Policymakers and activists in coastal cities like New York, Washington, and San Francisco are pursuing minimum-wage policies that might seem plausible where they live but would be catastrophic for many other parts of the country. Minimum wages are best set with reference to local labor markets, not by a one-size-fits-all law applied to the entire nation.”

**Oren Cass**, Senior Fellow, Manhattan Institute

hour should shed light on how high the minimum in a strong labor market can go before significantly affecting employment levels for various groups. But in total, only 23 million jobs (out of more than 120 million nationwide) are in markets with a median hourly wage above \$20. Nowhere is the median above the \$30 per hour that would make a \$15 minimum seem plausible.

At the other end of the spectrum, more than 11 million jobs are in markets with a median hourly wage below \$15; and 43 million are in markets with a median wage below \$17. In Myrtle Beach, the median wage is \$12.20; in El Paso, it is \$12.70. In Porterville, California, 200 miles from Silicon Valley, it is \$13.84. In Lynchburg, Virginia, not far from Washington, D.C., it is \$14.88.<sup>16</sup> That an \$11- or even \$13-per-hour minimum might work in Seattle does not mean that it can work two hours down I-90 in Yakima, where half of workers earn less than \$15.71.

Imposing a \$15 minimum wage on such markets would be so far outside the bounds of reasonable policy that, until recently, it was not even considered. “No one expects that the minimum wage should be set equal to the median wage,” wrote University of Massachusetts professor Arindrajit Dube in a 2014 paper for the Brookings Institution’s Hamilton Project.<sup>17</sup> Now that policy is no longer a fantasy but a plank in the Democratic Party’s platform.<sup>18</sup>

Perhaps so much momentum has built behind the “Fight for \$15” because the activists, politicians, and commentators fueling its rise reside predominantly in the very cities where the notion is less absurd. To translate for these coastal cities how the policy would affect other parts of the country, it is helpful to apply the Kaitz Index proposed for lower-wage areas to the higher-wage areas. For instance, if one believes that a \$15-per-hour minimum is achievable in El Paso, where it would be 18% above the median, one should also believe that a minimum wage 18% above the current median is reasonable everywhere—including in Silicon Valley (at \$33 per hour), Washington, D.C. (\$29), and New York City (\$25). If the latter minimum wages seem foolish, imposing a \$15-per-hour minimum in less affluent places like El Paso should seem equally foolish.

## Unphased

Proponents of dramatic minimum-wage increases will often moderate their policies with proposed “phase-ins” that do not reach full value for several years.<sup>19</sup> At current wage-growth rates, such phase-ins save little.

America’s median wage has increased in nominal terms by 2.1% over the past 10 years.<sup>20</sup> At that rate, the median would not reach \$30 per hour for 25 years. Medians in lower-wage markets have started lower and have exhibited slower growth. In Porterville, California, annual median-wage growth in the past decade has been only 1.8%; in El Paso, only 1.9%.<sup>21</sup> At those rates, neither city would reach a \$30-per-hour median for 45 years.

The low wage structures in America’s economically depressed regions can make aggressive minimum-wage increases seem

especially desirable. But setting the minimum wage based on what we want a market to support—rather than on what the market appears capable of supporting—is a recipe for economic disruption that will reduce economic opportunities for many of those whom the policy is intended to help.

Historical and international benchmarks suggest that minimum wages in many parts of the country could be increased by perhaps 10% but not to a level adequate to address the many economic challenges that low-wage workers face. Improving their fortunes further will require that their productivity increase or that government subsidize their wages to close the gap between what they can earn and what society believes that they deserve. A minimum-wage increase is a by-product of a healthy labor market, not a catalyst for one.

## Endnotes

- <sup>1</sup> See <https://www.demconvention.com/wp-content/uploads/2016/07/Democratic-Party-Platform-7.21.16-no-lines.pdf>.
- <sup>2</sup> See <http://www.nytimes.com/2016/02/17/opinion/hillary-clinton-should-just-say-yes-to-a-15-minimum-wage.html>.
- <sup>3</sup> See <http://www.nelp.org/content/uploads/Fact-Sheet-21-States-Stuck-at-725-Raise-the-Wage-Act.pdf>.
- <sup>4</sup> See, e.g., [http://www.hamiltonproject.org/assets/legacy/files/downloads\\_and\\_links/state\\_local\\_minimum\\_wage\\_policy\\_dube.pdf](http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/state_local_minimum_wage_policy_dube.pdf); and <http://www.epi.org/blog/a-12-minimum-wage-would-bring-the-united-states-in-line-with-international-peers>.
- <sup>5</sup> See <http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>.
- <sup>6</sup> Benchmark countries are developed economies with available Kaitz Index data, populations greater than 15 million, and unemployment rates below 10% (as of 4Q:2015). These economies are Japan (Kaitz Index—0.39), Canada (0.45), South Korea (0.46), Netherlands (0.48), United Kingdom (0.48), and Australia (0.53). See [http://stats.oecd.org/Index.aspx?DataSetCode=POP\\_FIVE\\_HIST](http://stats.oecd.org/Index.aspx?DataSetCode=POP_FIVE_HIST) (population); and <https://data.oecd.org/unemp/unemployment-rate.htm> (unemployment).
- <sup>7</sup> Ibid.
- <sup>8</sup> See [http://www.bls.gov/oes/current/oes\\_nat.htm#00-0000](http://www.bls.gov/oes/current/oes_nat.htm#00-0000) (median); and <https://www.dol.gov/general/topic/wages/minimumwage> (minimum).
- <sup>9</sup> See <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>, accessed July 13, 2016.
- <sup>10</sup> See <http://www.epi.org/minimum-wage-tracker>, accessed July 21, 2016.
- <sup>11</sup> Local regions defined by Metropolitan Statistical Areas (MSAs). Analysis uses minimum wages as of January 1, 2016. See <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>, accessed July 13, 2016 (state minimums); <http://www.epi.org/minimum-wage-tracker>, accessed July 21, 2016 (local minimums); and <http://www.bls.gov/oes/current/oesrcst.htm> (medians and employment levels).
- <sup>12</sup> Some other countries also vary their minimum wage rates regionally—and even by worker experience level and industry. However, in reporting for international comparison, the OECD attempts to account for these differences by using the higher adult rate or by calculating a weighted-average measure of minimum wage, where it varies by province or industry (as in Canada and Japan). The OECD does not do this for the U.S., instead using only the federal minimum. See [https://stats.oecd.org/Index.aspx?DataSetCode=MW\\_CURP](https://stats.oecd.org/Index.aspx?DataSetCode=MW_CURP).
- <sup>13</sup> See, e.g., [http://www.hamiltonproject.org/assets/legacy/files/downloads\\_and\\_links/state\\_local\\_minimum\\_wage\\_policy\\_dube.pdf](http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/state_local_minimum_wage_policy_dube.pdf) (“a natural target is to set the minimum wage to half of the median full-time wage”).
- <sup>14</sup> See <http://www.bls.gov/oes/current/oesrcma.htm>. “San Jose–Sunnyvale–Santa Clara, CA” used for Silicon Valley; “Washington–Arlington–Alexandria, DC–VA–MD–WV Metropolitan Division” used for Washington, D.C.; “New York–Jersey City–White Plains, NY–NJ Metropolitan Division” used for New York City.
- <sup>15</sup> See Report on the Impact of Seattle’s Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments through 2015, University of Washington, July 2016, <http://seattle.legistar.com/View.ashx?M=F&ID=4579065&GUID=39743A75-1D9F-4C32-B793-2F699D51B0F7>.
- <sup>16</sup> See <http://www.bls.gov/oes/current/oesrcma.htm>. “Myrtle Beach–Conway–North Myrtle Beach, SC–NC” used for Myrtle Beach; “El Paso, TX” used for El Paso; “Visalia–Porterville, CA” used for Porterville; “Lynchburg, VA” used for Lynchburg.
- <sup>17</sup> See n.13, above.
- <sup>18</sup> See n.1, above.
- <sup>19</sup> See, e.g., <http://www.sanders.senate.gov/download/15-minimum-wage-petition?inline=file>; <http://www.epi.org/blog/a-12-minimum-wage-would-bring-the-united-states-in-line-with-international-peers>; and n.1, above.
- <sup>20</sup> See [http://www.bls.gov/oes/current/oes\\_nat.htm](http://www.bls.gov/oes/current/oes_nat.htm) (2015); and <http://www.bls.gov/oes/special.requests/oesm05nat.zip> (2005).
- <sup>21</sup> See <http://www.bls.gov/oes/current/oesrcma.htm> (2015); and <http://www.bls.gov/oes/special.requests/oesm05ma.zip> (2005).