The Washington Post
Democracy Dies in Darkness

Biden's claim that with a $15 minimum wage, 'the whole economy rises'

By **Glenn Kessler**

Feb. 9, 2021 at 3:00 a.m. EST

"I do think that we should have a minimum wage, stand by itself, $15 an hour and work your way up to the — it doesn't have to be boom. And all the economics show, if you do that, the whole economy rises."

— President Biden, in an interview with Norah O'Donnell of CBS News, Feb. 5, 2021

President Biden is pushing for a gradual increase in the federal minimum wage to $15 an hour by 2025, after which it would be indexed for inflation. The wage was last raised in 2009, to $7.25, though more than half of the states now have set even higher minimums.

Since the late 1960s, the value of the minimum wage has eroded over time and it has been infrequently boosted. But $15 would be even higher than the minimum wage's high point in 1968, about $12.25 in 2020 dollars.

In his CBS interview, the president asserted that "all the economics show, if you do that [raise the minimum wage to $15], the whole economy rises." As phrased, Biden's point is a bit obscure, but the debate is not nearly as well settled as he suggests.

The Facts

As any student of Economics 101 can tell you, higher wages are expected to lead to less demand for labor, resulting in higher unemployment. But increasingly, economists on the left have argued that there is little or no evidence of a negative association between minimum wages and employment. Some researchers went directly to the ground, studying, for example, what happened when two states in the same employment zone set different levels for the minimum wage.

When President Barack Obama sought to increase the minimum wage from $7.25 to $9, the 2013 Economic Report of the President devoted two pages to the issue, noting that most economists had once believed an increase in the minimum wage would reduce employment but that "the consensus view among economists has since shifted as more evidence has accumulated." The report also cited a 2009 meta-analysis of 64 studies of the minimum wage that found "no evidence of a meaningful adverse employment effect."

But as left-leaning economists have tried to move the economic profession in one direction, there has been an equally fierce response from other economists.

In 2006, David Neumark of the University of California at Irvine and Federal Reserve economist William L. Wascher published a survey of more than 100 studies and came to an opposite conclusion, directly contradicting the results of the so-called New Minimum Wage Research. They found that the majority of the studies showed that "raising the minimum wage leads to economic distortions and often has unintended adverse consequences for the employment opportunities of low-skilled workers."

More recently, in January, Neumark, with a colleague, issued a working paper published by the National Bureau of Economic Research that identified the core estimates of all published papers on the minimum wage since the early 1990s, often relying on responses from the researchers who wrote the papers. The study concluded that nearly 80 percent of the papers linked job losses with a higher minimum wage. "This evidence of negative employment effects is stronger for teens and young adults, and more so for the less-educated," the study said.

Moreover, the study found no real change in the research findings over time.

"None of this evidence says the minimum wage 'lifts the economy,' and there is simply no research basis for that conclusion," Neumark told The Fact Checker in an email.

One of Neumark's frequent sparring partners in this debate is economist Arindrajit Dube of the University of Massachusetts at Amherst, who did his own review of economic literature for the Treasury of the United Kingdom in 2019.

"Overall the most up-to-date body of research from U.S., U.K. and other developed countries points to a very muted effect of minimum wages on employment, while significantly increasing the earnings of low-paid workers," Dube said in an email. "Importantly, this was found to be the case even for the most recent ambitious policies, like in some of the states that are on a path to $15 an hour."

The Fact Checker obviously is not going to take a stand on this debate, only to note that it exists — with some of the disputes remarkably deep in the weeds. But Biden's proposal to bump the minimum wage to $15 would be an interesting test because many of the studies have examined more incremental increases in the minimum wage.

Daniel S. Hamermesh, an economist at Barnard College and editor in chief of the IZA World of Labor, a labor encyclopedia, supports setting a minimum wage of $11.50 and then indexing it to inflation. He says then the minimum wage would lie relative to the median wage at about 50 percent, on par with an average of the eight largest other wealthy economies. "It will cost some jobs disproportionately among teens and minorities, but the job losses arising from an increase to $11.50 will be small," he said. He added that $15 would affect many more workers.

The Congressional Budget Office on Monday weighed in with its own assessment of the Raise the Wage Act, the vehicle in Congress for Biden's proposal. The CBO found that 17 million workers, or 10 percent of the projected labor force, would get higher pay. The cumulative pay of directly and potentially affected workers would increase, on net, by $333 billion. Meanwhile, the number of people in poverty would be reduced by 900,000 by 2025. But another 1.4 million workers, just under 1 percent, would lose their jobs, with about half dropping out of the labor force by 2025, the CBO said — backing the economists concerned about possible job loss.

The reduction in employment would slightly reduce the nation's gross domestic product, the CBO concluded, but there is uncertainty in the projections. There is a 33 percent chance the impact on jobs was between zero and 1 million workers — and a 33 percent chance the job loss would be between 1 million and 2.7 million workers.

"Higher wages would increase the cost to employers of producing goods and services," the CBO said. "Employers would pass some of those increased costs on to consumers in the form of higher prices, and those higher prices, in turn, would lead consumers to purchase fewer goods and services. Employers would consequently produce fewer goods and services, and as a result, they would tend to reduce their employment of workers at all wage levels."

A White House official responded to our queries with a blizzard of reports from the left-leaning side of the debate, which broadly argued that concerns about job losses from a wage hike are overblown and that a higher minimum wage will benefit the economy and U.S. workers. The official emphasized that Biden wasn't referring to "all" economists or economic data, but making a general point about what the administration views as an increasing consensus about the positive impacts of minimum-wage hikes.

The Pinocchio Test

There’s often a tendency by politicians to oversell their policy proposals. Biden suggested there was universal consensus on the impact of a minimum-wage hike, with virtually no downside, resulting in a booming economy. Apparently that was not his intention, but it certainly sounded like that.

There is one side of the economic academy that might support such a bullish view, but there are other economists who dispute it strenuously — and who say their views are confirmed in scores of economic studies during the past 30 years.

Within the context of the U.S. economy, higher wages for 10 percent of U.S. workers while 1 percent lose their jobs might be considered an acceptable trade-off, especially if the number of working Americans in poverty is also reduced. But Biden should acknowledge that a rising tide may not lift all boats.

Two Pinocchios

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