Minimum-wage madness

By **Robert J. Samuelson**, *Washington Post*
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A while back — in January 1997, to be precise — I wrote a column on the euro, which was to be introduced in 1999. I didn't find much to like. It was a "lunatic idea." A single currency worked in the United States, "because wages are flexible and workers are mobile." Europe lacked these advantages. Countries would also give up individual movable exchange rates, which compensate for national differences. The potential tragedy was that "the single currency would backfire politically." Designed to promote European unity, it would do the opposite as countries blamed one another for the failure to achieve unrealistic goals.

Today, this prediction looks pretty good. I return to it not to brag (okay, just a bit) but to highlight the euro's larger lesson. Politics and economics routinely operate on different timetables. What's politically appealing in the short run can be economically disastrous in the long run.

Certainly, this applies to the euro. Initially, it was immensely popular. As late as 2008, the European Commission issued a report hailing the euro as "a resounding success." It had "secured macroeconomic stability." Political unity was growing. With hindsight, we know that this apparent success was built on unrealistically low interest rates and dubious lending. The long-term economic consequences took time to emerge.

The same perverse cycle has afflicted the United States. Consider the 1960s. Economists convinced themselves — and the public — that, through government budgets and interest rates, they could minimize recessions and sustain "full employment." Early success was astounding. By late 1968, unemployment was 3.4 percent. But this was simply an inflationary boom, not a sophisticated advance in economic management. Double-digit price increases soon surfaced. We spent 15 years (and four recessions) combating inflation.

All this is relevant now. The obvious parallel is the populist crusade for a $15-an-hour minimum wage. With differing implementation dates, municipal leaders in San Francisco, Los Angeles and Seattle have approved $15 minimums; the New York Fast Food Wage Board recommends a $15 minimum. Congressional legislation has been proposed for $12 and $15 minimums.

Let's be clear. Some increase in the federal minimum is justified. It's been at $7.25 since 2009. Inflation has eroded its value 10 percent since then and 24 percent since its peak year of 1968, says the left-leaning Economic Policy Institute. But raising it to $15 (a doubling), or even $12 (a two-thirds increase), would be a radical act that front-loads the benefits and back-loads the costs.

In 2014, about 3 million workers were paid the minimum or less; that's 2 percent of 146 million workers. If the minimum had been set at $15 — and including workers just over the new minimum whose wages employers would probably raise — the number of affected workers

would have been 59 million, or 40 percent. The immediate political benefits are clear. But is the federal government smart enough to set wages for two-fifths of workers? Can it recognize the circumstances of individual industries and firms? I doubt it.

With time, job losses would mount. Some companies would become unprofitable and shrink or close. Others would automate. Some start-ups would be scrapped. How many jobs would be lost is guesswork. The Congressional Budget Office estimated that a $10.10 minimum (President Obama's proposal) would cut employment by about 500,000. The American Action Forum, a right-leaning think tank that says it followed CBO's methodology, calculates that a $12 minimum would cost 1.3 million jobs and a $15 minimum would cost 3.3 million. Moreover, the least-skilled workers might suffer the largest losses, especially if higher wages draw experienced people back into the labor market. Family incomes would rise, but about four-fifths of the gains would go to workers in households above the government's poverty line — though often not by much — because "many low-wage workers are not members of low-income families," says the CBO. College students with minimum-wage jobs aren't all from poor families.

A central problem of modern democracies is to reconcile politics and economics. Politics has a short-term bias. Political leaders invent the future they want to justify the present they need. Future dangers are discounted because they are usually distant and hypothetical. Meanwhile, the present's rewards are immediate and tangible. But economic logic ultimately imposes its own reality.

What history demonstrates is that undoing past mistakes is hard. In the United States, the crushing of inflationary expectations was wrenching — unemployment in the 1981-1982 recession peaked at 10.8 percent. As for the euro, it's entrenched in Europe's political culture and financial institutions, even if it's a drag on the economy. We should hope that the ambitious plans to improve economic justice through steep minimum wages do not lead us to a similar blunder and that common sense triumphs over expediency.