Connecticut Debate Association

October 10, 2015

Joel Barlow High School and Westhill High School

Resolved: The US should significantly raise the minimum wage.

A $15 Minimum Wage Can Help Overcome the New Low-Wage Economy

The New York Times, Room for Debate, June 26, 2015, Robert Reich

Robert Reich, the secretary of labor in the Clinton administration, is Chancellor's professor of public policy at the University of California, Berkeley and the co-creator of the film "Inequality for All."

By raising its minimum wage to $15, Seattle is leading a long-overdue movement toward a living wage. Most minimum wage workers aren't teenagers these days. They're major breadwinners who need a higher minimum wage in order to keep their families out of poverty.

When workers have more, they can spend more and need less assistance. Employers will adjust, and studies show little effect on employment.

Across America, the ranks of the working poor are growing. While low-paying industries such as retail and food preparation accounted for 22 percent of the jobs lost in the Great Recession, they've generated 44 percent of the jobs added since then, according to a recent report from the National Employment Law Project. Last February, the Congressional Budget Office estimated that raising the national minimum wage from $7.25 to $10.10 would lift 900,000 people out of poverty.

Seattle estimates almost a fourth of its workers now earn below $15 an hour. That translates into about $31,000 a year for a full-time worker. In a high-cost city like Seattle, that's barely enough to support a family.

The gains from a higher minimum wage extend beyond those who receive it. More money in the pockets of low-wage workers means more sales, especially in the locales they live in – which in turn creates faster growth and more jobs. A major reason the current economic recovery is anemic is that so many Americans lack the purchasing power to get the economy moving again.

With a higher minimum wage, moreover, we'd all end up paying less for Medicaid, food stamps and other assistance the working poor now need in order to have a minimally decent standard of living.

Some worry about job losses accompanying a higher minimum wage. I wouldn't advise any place to raise its minimum wage immediately from the current federal minimum of $7.25 an hour to $15. That would be too big a leap all at once. Employers – especially small ones – need time to adapt.

But this isn't what Seattle is doing. It's raising its minimum from $9.32 (Washington State's current statewide minimum) to $15 incrementally over several years. Large employers (with over 500 workers) that don't offer employer-sponsored health insurance have three years to comply; those that offer health insurance have four; smaller employers, up to seven.

My guess is Seattle's businesses will adapt without any net loss of employment. Seattle's employers will also have more employees to choose from – as the $15 minimum attracts into the labor force some people who otherwise haven't been interested. That means they'll end up with workers who are highly reliable and likely to stay longer, resulting in real savings.

Research by Michael Reich (no relation) and Arindrajit Dube confirms these results. They examined employment in several hundred pairs of adjacent counties lying on opposite sides of state borders, each with different minimum wages, and found no statistically significant increase in unemployment in the higher-minimum counties, even after four years. (Other researchers who found contrary results failed to control for counties where unemployment was already growing before the minimum wage was increased.) They also found that employee turnover was lower where the minimum was higher.

Not every city or state can meet the bar Seattle has just set. But many can – and should.

Raising Minimum Wage is Misguided Policy

The New York Times, Room for Debate, December 4, 2013, Douglas Holtz-Eakin

Douglas Holtz-Eakin is the president of the American Action Forum. He was the director of the Congressional Budget Office and a chief economist of President George W. Bush's Council of Economic Advisers.

The protests, ballot initiatives and other efforts aimed at the the minimum (or living) wage are not political events. They reflect a real economic problem: the growing distress of the millions of out-of-work and lower-wage workers trapped by a failed response to the Great Recession and the ensuing anemic recovery. Great distress and good intentions, however, are not the same as sensible policy.

With 11.3 million people looking for work, it is simply perverse to redistribute from the job seekers to the job holders.

Increasing the minimum wage is a misguided way to address the situation. It wouldn't target those hurt the worst: the unemployed and low-skilled, and in fact would build bigger barriers for those without a job.

According to recent American Action Forum research, 80 percent of minimum wage workers are not actually in poverty, increasing the federal minimum to $10, as some have proposed, wouldn't benefit 99 percent of the people in poverty.

Myriad research indicates that raising the minimum wage, while not destroying jobs, impedes job creation. That means an even slower recovery to full employment. California's new bump in the minimum wage to $10 will prevent the creation of almost 200,000 new jobs. If every state followed suit, more than 2.3 million jobs across the country would never see the light of day.

This makes intuitive sense because the money has to come from somewhere. If the goal is to get people back to work, imposing a $5 billion to $15 billion price tag on the small and new businesses that dominate minimum-wage job creation would simply get in the way.

In the process, income that would have been earned by new job holders would instead accrue to existing minimum wage workers. With 11.3 million people looking for work, it is simply perverse to redistribute from the job seekers to the job holders.

Who would be helped by a minimum wage increase? Teenagers and young adults from affluent families. It's hard to see how increasing the minimum wage would combat income inequality when it's such a windfall for the top 20 percent of earners.

A better way to help everyone, especially those in need is to improve the economy and the job market, and empower workers with the skills they need for better jobs. Employing solutions that have a track record of targeting the poor and getting people to work, such as the earned income tax credit, is one step down such a road.

Americans are rightly upset with today's current wage and poverty conditions. But let's first acknowledge the true culprit is bad growth policy. Hobbled by anti-growth taxes, regulations and entitlement expansions, the anemic economic recovery has generated far too few jobs and kept incomes flat.

Higher Wages Help Businesses

The New York Times, Room for Debate, DECEMBER 4, 2013, Catherine Ruetschlin

Catherine Ruetschlin is a policy analyst at Demos and is the author of the report "Retail's Hidden Potential: How Raising Wages Would Benefit Workers, the Industry and the Overall Economy."

Low wages are not just keeping workers in poverty, they are also holding back the economy by weakening consumer demand and keeping employers from realizing the benefits that accompany investments in the work force. Retail and fast food companies that pay poverty wages sabotage their own bottom lines and the health of the American economy, but a raise for the lowest paid would have benefits that extend to workers, consumers, and employers across industries.

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Consumer spending is the engine of the American economy, driving 70 percent of economic activity. But low wages at our nation's biggest employers mean that working families have little left over in their paychecks to contribute to economic growth. Since low-wage workers spend 100 percent of their incomes just to meet basic needs, they are likely to spend any additional income immediately. That means that an extra dollar in the paychecks of low-wage fast food and retail workers would circulate right back into the economy, becoming someone else's income and contributing to growth. At a time of weak consumer demand a raise at the bottom would generate billions of dollars in new G.D.P. and hundreds of thousands of jobs – those are benefits that give a boost to retail and fast food employers, and ripple out to the economy overall.

At the same time, a large body of evidence shows that investing in the work force leads to lower turnover costs, greater productivity and more customer satisfaction. Experienced, knowledgeable employees drive sales instead of costs: they keep the lines short and shelves stocked, accommodate customer requests and identify priorities. Comparing high-wage retail employer Costco with its rival, low-wage employer Sam's Club, reveals that sales per employee at Costco are nearly double the average sales per employee at Sam's Club. By taking the high road, Costco demonstrates that retailers can please all their stakeholders -- customers, employees and shareholders alike.

Moreover, a raise is possible. Some of the largest companies in the fast food and retail industries spend billions of dollars each year on share repurchases -- buying back their own stock to boost earnings per share. If they instead directed these funds to invest in their work force they could meet their workers' call for higher wages without costing customers a dime.

A raise for low wage workers would mean that firms see more money in the register because of new economic activity, a more productive work force and happier customers. That is an investment we can all support.

Higher Minimum Wage Hurts Low-Skill Workers in the Long Run

The New York Times, Room for Debate, May 11, 2015, Diana Furchtgott-Roth

Diana Furchtgott-Roth, former chief economist of the Department of Labor, is director of Economics21 and senior fellow at the Manhattan Institute for Policy Research.

Seattle's economy can support a raise to $15 an hour, but what about Seattle's young and low-skilled workers, who might want summer jobs? They will be left twiddling their thumbs on their couches — or those of their parents. And families who want to go out to eat might think twice and then stay home.

Seattle has one of the highest hourly median wages in the nation, according to the Department of Labor. Both the Seattle-Bellevue-Everett area (ranked 13th, with $22.43) and the overlapping Seattle-Tacoma-Bellevue area (ranked 18th, with $21.72) beat the national hourly median wage, $16.87. As a result, the negative effects of a $15 minimum wage will not as bad as they would be in Brownsville-Harlingen, Texas, which has a median hourly wage of $10.81.

Employees are likely to be gradually replaced by self-order kiosks that use touchscreens instead of cashiers in restaurants, and self-scanning checkout booths in drugstores and supermarkets.

But low-skill jobs remaining in the city will see increased competition, with medium-skilled, experienced workers winning out over low-skilled, mainly young workers trying to reach the first rung of the career ladder.

With a $15 minimum wage floor, Seattle will say goodbye to many of its low-skilled workers, most of whom serve the retail and leisure and hospitality sector. They are likely to be gradually replaced by self-order kiosks that use touchscreens instead of cashiers in restaurants, and self-scanning checkout booths in drugstores and supermarkets.

In April, the Restaurant Opportunities Center, a union-funded worker center, organized High Road Restaurant Week in New York City. The average price of a burger and fries at participating restaurants was $20.50. A family of four would pay $82 for burgers, instead of $10 to $15 at McDonald's.

Last month USA Today reported that Panera is incorporating multiple technologies, such as store kiosks and mobile ordering, to reduce cash registers in stores. Panera will do fine in Seattle. But what about the kids who want summer jobs? Perhaps they will go to Texas for the summer.

Well-Paid Workers Help Local Economies

The New York Times, Room for Debate, June 5, 2014, Nick Hanauer

Nick Hanauer is an entrepreneur and venture capitalist in Seattle. He is the co-author of two books, "The True Patriot" and "The Gardens of Democracy: A New American Story of Citizenship, the Economy, and the Role of Government."

Orthodox economists and trickle-down dogmatists are sputtering in disbelief over Seattle's new $15 minimum wage, convinced it will destroy our economy. As House Speaker John Boehner is fond of saying, "If you raise the price of employment, guess what happens? You get less of it."

They are wrong. Seattle's minimum wage is already way higher than in most of America. Yet our economy is thriving. At $9.32 an hour, Seattle employers already pay 27 percent more than the federal $7.25 minimum wage. And our tipped workers earn $9.32 as well, 437 percent more than the $2.13 federal tipped minimum. So if Speaker Boehner is right, Seattle must have massive unemployment.

The most insidious part of trickle down isn't that if the rich get richer, that's good for the economy. It is that if the poor get richer, that will be bad.

Yet of the nation's 50 largest cities, Seattle ranked first in population growth last year and third lowest in unemployment. And according to the most recent Paychex IHS report, Seattle is second only to San Francisco in job growth in small businesses.

Guess which cities have the highest minimum wage? In order, San Francisco and Seattle.

This makes perfect sense. The fundamental law of capitalism is that when workers have more money, businesses have more customers — and more workers. A city in which restaurants pay workers enough so that they can afford to eat in restaurants, doesn't have fewer restaurants. It has more of them. But if a worker earns only $7.25 an hour, almost no money goes to local small businesses. At $7.25 an hour, you can't afford to eat in restaurants, go to the beauty shop, or buy flowers for mom.

If the minimum wage had tracked productivity gains since 1968, it would be $21.70 today; had it tracked the wages of us in the top 1 percent, it would be $28. Raising it to only $15 in a city as prosperous and expensive as Seattle isn't a risky experiment. The risky experiment has been the 30 years of trickle-down policy that enriched a few of us while eviscerating the middle class.

The most insidious part of trickle down isn't the idea that if the rich get richer, that's good for the economy. It is that if the poor get richer, that will be bad for the economy. A $15-an-hour wage isn't a risky and untried policy in Seattle. It is the natural evolution of common-sense economic thinking.

Raise the Minimum Raise to $12 an Hour

The New York Times, Room for Debate, December 4, 2013, Ron Unz

Ron Unz, a software developer and publisher of The Unz Review, is the chairman of the Higher Wages Alliance, which is sponsoring a California ballot initiative next year to raise the state minimum wage to $12 per hour.

Tens of millions of low-wage workers in the United States are trapped in lives of poverty. Many suggestions have been put forth to improve their difficult situation, ranging from new social welfare programs to enhanced adult education to greater unionization. But I think the easiest solution is also the simplest: just raise their wages.

The current federal minimum wage is $7.25 per hour and hiking it to $12 would solve many of our economic problems at a single stroke.

The proposed rate would represent a real rise of 11 percent over a 45-year period, reasonable since worker productivity has doubled in the same period.

A $12 minimum wage is hardly extreme or ridiculous. At the 1968 height of our post-war economic prosperity, the American minimum wage was over $10.50 in current dollars, and setting the rate at $12 today would represent a real rise of merely 11 percent over a 45-year period, which seems reasonable since worker productivity has grown by over 115 percent during the same period. The minimum wage in France is almost $13 while Australian workers benefit from an hourly minimum wage of around $15, together with unemployment of just 5.7 percent.

Walmart is America's largest private employer and 300,000 of its workers have average wages of just $8.75 per hour, forcing many of them to receive food stamps and other government welfare benefits to survive. But if a minimum wage hike boosted their pay to at least $12 per hour, Walmart could cover the costs by a one-time price rise of just 1.1 percent, and the average Walmart shopper would only pay an extra $12.50 per year. Meanwhile, a $12 minimum wage would increase the incomes of America's lower-wage work force by a total of over $150 billion each year, shifting those huge sums from the pockets of the sort of people who don't shop at Walmart to those who do. A minimum wage of $12 per hour would be very good for Walmart's business.

And not just Walmart. America's low-wage families tend to spend every dollar they earn, so a large minimum wage hike would constitute an enormous, permanent economic stimulus package, but one funded entirely by the private sector. Since wages would be rising nationwide, businesses could raise their prices to cover much or most of the added costs. Low-wage workers tend to be employed in the non-tradeable service sector, making their jobs relatively safe from foreign competition or automation. They'd keep their jobs, but their incomes would rise by 30 or 40 percent.

The impact on U.S. households would be enormous and bipartisan. Some 42 percent of American wage-workers would benefit from a $12 minimum wage and their average annual gain would be $5,000 per worker, $10,000 per couple, which is very serious money for a working-poor family. White Southerners are the base of today's Republican Party, and 40 percent of them would gain, seeing their annual incomes rise by an average $4,500 per worker. If Rush Limbaugh -- who earns over $70 million per year -- denounced the proposal, they'd stop listening to him. Hispanics would gain the most, with 55 percent of their wage-workers getting a big raise and the benefits probably touching the vast majority of Latino families.

Ordinary taxpayers would be the other great beneficiaries, saving many tens of billions of dollars each year in payments for Food Stamps, the Earned Income Tax Credit, housing subsidies, and other social welfare programs. Businesses should pay their own employees rather than quietly shifting the burden to government programs and the American taxpayer. Conservatives and free-market supporters should endorse this simple idea.

The best way to help low-wage workers is to raise their wages.

Subsidize Business for Pay Raises

The New York Times, Room for Debate, December 4, 2013, James Pethokoukis

James Pethokoukis is a columnist at AEIdeas, the blog of the American Enterprise Institute, and a CNBC contributor.

IPads replacing your fast-casual waitress? That's just the start. And autonomous octocopters replacing your FedEx guy won't be the end. Smart machines are invading the U.S. service sector. Any job that can be disassembled into discrete rules or actions is at risk. Policymakers need to be careful that in their attempt to boost wages of the working poor, they don't price those carbon-based lifeforms out of the labor market.

Raising the minimum wage is one option. The supporting data, however, are equivocal. A survey of economists earlier this year found 34 percent believed that raising the federal minimum wage to $9 an hour from the current $7.25 "would make it "noticeably harder for low-skilled workers to find employment," while 32 percent disagreed.

Now that same survey also found a plurality in favor of doing it anyway, agreeing the cost would be "sufficiently small compared with the benefits." And that might well be true in an economy that wasn't on the verge of an accelerating wave of automation. Yet there is a more elegant, less economically distorting option that may have won the day had it been offered: wage subsidies.

If Americans think the 1.6 million workers making the federal minimum need a raise to, say, $10 an hour, have government make up the $2.75 gap. It would basically be a de facto expansion and broadening of the Earned Income Tax Credit, an anti-poverty fighting tool with bipartisan support.

Indeed, a possible Washington compromise would be to a.) boost the federal minimum wage to $8.50 an hour, b.) index the wage to inflation, and c.) top it off with a $1.50 wage subsidy, also inflation indexed.

And for the long-term unemployed, maybe even lower the minimum wage for some period of time with a federal subsidy offset. Of course, it doesn't have to be a federal fix. The economist Noah Smith suggests local governments subsidizing wages would be better in tune with local needs and cost of living. And the subsidy could be paid for through a land-value levy that taxes property but not the buildings on it.

It is great that the plight of low-wage Americans has finally grabbed the public's attention. Let's make sure good intentions don't make their lives worse.

What a $15 Minimum Wage Would Mean for Your City

The New York Times, AUG. 12, 2015, by Noam Scheiber

As the campaign for a $15 minimum wage has gained strength this year, even supporters of large minimum-wage increases have wondered how high the wage floor can rise before it reduces employment and hurts the economy.

The recent recommendation of a wage board in New York State to establish a $15-an-hour minimum wage for workers at fast-food chains provided a case in point. Paying fast-food workers at least $15 an hour in New York City, with its relatively high wages and high cost of living, may be one thing. But mandating wages that high in less economically vibrant cities like Utica and Binghamton may be quite another. (The wage board, aware of the disparity, recommended that the increase not kick in until mid-2021 elsewhere in the state, versus late 2018 for New York City.)

Fortunately, economists have a handy tool for gauging the likely impact of minimum-wage increases: the ratio of the minimum wage to the wage of workers in the very middle of the income distribution, known as the median wage. The higher the ratio of the minimum to the median, the greater the boost to workers.

But the higher that ratio, the greater risk of job losses, too. Where is the point at which job loss risk exceeds the benefit to workers? There is some evidence that cities and states have managed to absorb increases when the minimum wage is in the neighborhood of 50 percent of the median, even a bit higher. But economists have very few historical examples of increases that go beyond 60 percent. And even some economists who are at ease with moderate increases in the minimum wage worry that a minimum wage in that 60 percent range or higher could produce significant job losses.

Michael Reich, a professor of economics at the University of California, Berkeley, whose work has bolstered the case for minimum wage increases, said in a recent interview that it would be disingenuous to suggest that the potential costs of raising the minimum could never outweigh the economic benefits. "We don't know at what point that kicks in," he said. "We know that hasn't happened at 50 percent or 55 percent." (Other minimum-wage scholars, like David Neumark of the University of California, Irvine, believe this happens much sooner.)

Mr. Reich said that a handful of affluent European countries had or would soon have minimum-to-median ratios in the 50s and low 60s and did not appear to show many ill effects. (Some of them, like France, have significantly higher unemployment rates than the United States, but others, like Germany, do not.)

With that in mind, I decided to figure out what the minimum-to-median ratio for 25 cities would be if the minimum wage were to rise to $15 an hour in 2020, as Bernie Sanders, the Vermont senator and candidate for the Democratic presidential nomination, proposes in a recent bill. The exercise revealed a fair amount about the relative ability of each city to withstand a $15-an-hour minimum wage.

Regional Differences

If the minimum hourly wage were $15 in every city by 2020, some local economies would have a harder time adjusting to it than others. In cities where median wages are relatively low, many economists say that such an increase could result in significant job losses.

The median wage for 2020 is calculated by assuming 2 percent annual growth of the current median wage for full-time workers.

Source: Bureau of Labor Statistics

By The New York Times

Some of the results are what you'd expect: The San Francisco area, thanks in part to its booming tech industry, has the highest current median wage on our list ($25.27), and in 2020 would have a resilient minimum-to-median ratio of 0.47, assuming 2 percent annual growth of the median wage in the interim. Washington at 0.49, Boston at 0.50, Seattle at 0.54 and New York at 0.55 would round out the top metro areas that could sustain a $15-an-hour minimum wage without much fallout. If anything, my calculations may overstate the ratios we'd observe in these areas in 2020, because wages could rise significantly faster there than the 2 percent per year I assumed.

Not surprisingly, two of these cities, San Francisco and Seattle, already have $15-an-hour minimum wage laws, and Washington may well join them next year.

But some of the other numbers are worrying. For example, Los Angeles, which recently approved a $15-an-hour wage bill of its own, may have more trouble handling the change, even though we sometimes mentally lump it in with booming cities like San Francisco and Seattle. The city's current median wage is actually relatively low — $18.32 in the metro area versus $21.73 in New York and $24.58 in Washington — leading to an estimated minimum-to-median ratio of 0.65 in 2020. This would put it behind Minneapolis (0.61), Philadelphia (0.63) and Detroit (0.64), and roughly in line with Chicago (0.66).

Granted, there are other reasons to believe that Los Angeles will be able to weather its minimum-wage increase better than some less glamorous cities. For example, the relatively high cost of real estate there means wages are generally a smaller percentage of employers' overall costs than in other cities (certainly Detroit), so wage increases there have a relatively smaller impact on the bottom line. Businesses in cities with a lot of transient customers, like tourists and business travelers, may also have an easier time increasing prices to offset minimum-wage increases.

Regional Differences

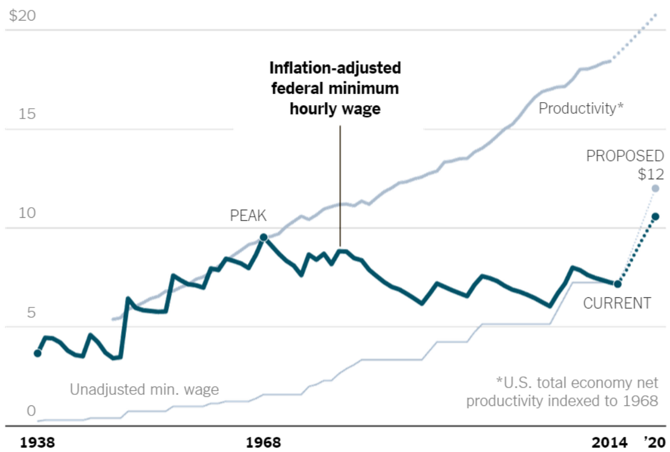
If the minimum hourly wage were $15 in every city by 2020, some local economies would have a harder time adjusting to it than others. In cities where median wages are relatively low, many economists say that such an increase could result in significant job losses.

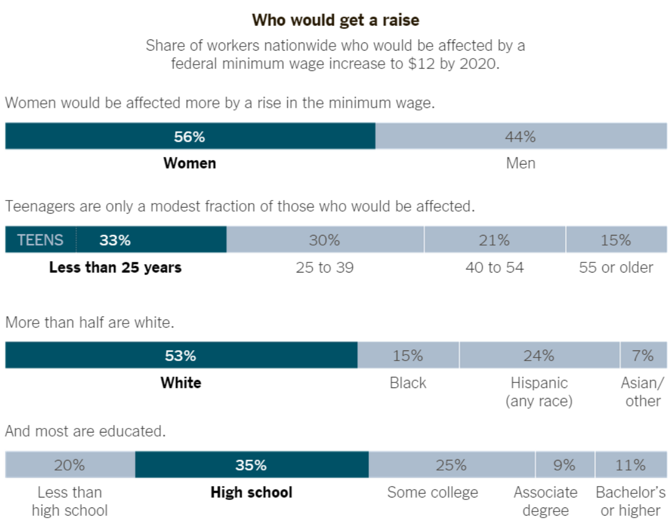
And, as Arindrajit Dube, an associate professor of economics at UMass Amherst, pointed out, Detroit's figure may be somewhat misleading. Its relatively high median wage and low minimum-to-median ratio may mask high unemployment or low labor force participation among people who want low-wage jobs but can't get them. Those jobs would drive down the local median wage if they existed, but they don't. "Detroit is not a prosperous area, so there's not demand for low-wage service-sector jobs," he said. "As a result, the jobs they do have tend to pay higher. Think of it more as the 'missing jobs.' "

(Alternatively, the explanation may be that most of the median-wage numbers are only available at the metro-area level rather than the city level. According to government data, the Detroit metro area, which includes a ring of more affluent suburbs, has had higher economic growth in recent years than the Los Angeles metro area and the same level of unemployment. But this may mask a much weaker economy in Detroit proper.)

What a $12 Minimum Might Mean

Until 1968, the federal minimum wage had been keeping pace with labor productivity, but since then the minimum has been falling after adjusting for inflation. A proposal to raise the federal minimum to $12 an hour by 2020 from its current minimum of $7.25 would bring it above its effective 1968 peak for the first time.





Source: Economic Policy Institute

By The New York Times

Finally, there are a handful of cities that appear to be distinctly ill-equipped for a $15-an-hour minimum. Wages are so low that $15 is fairly close to the median wage there. The minimum-to-median ratio in Las Vegas and New Orleans — big service-economy and tourism hubs — comes to 0.75 and 0.76. Oklahoma City would come to 0.75. Miami, the only city on the list where the most recent median-wage reading is actually under $15 ($14.93), has a minimum-to-median ratio at a staggering 0.8.

The wide variation in minimum-to-median ratios does seem to recommend some variation when raising the minimum wage. A number of the cities that have recently passed minimum-wage laws — like Albuquerque, Louisville and Portland, Me. — have stopped far short of $15 an hour. If Las Vegas and Miami are considering raising their local minimum wages, they might be advised to follow suit. (Oklahoma City may be in a better position to absorb a minimum-wage increase because it has enjoyed very low unemployment and very rapid economic growth in recent years.)

Still, as a general rule, this list is filled with prosperous cities — places it might make sense to single out with high-impact minimum-wage increases. It's their affluence that fuels the demand for low-wage jobs, exacerbating inequality.

"The demand is essentially either driven by higher-income consumers in that area, or by tourism," Mr. Dube said. These are the very people, he added, who can afford to subsidize a higher minimum wage by paying more at restaurants and clothing stores.

A note about my methodology:

My approach to picking the cities was highly unscientific—I chose 25 interesting cities among the 50 largest in the country, with the caveat that each region of the country needed some representation. The calculations are a bit crude; I calculated what the median wage would look like if it grew by 2 percent a year between 2014 and 2020. As a rule, I used the smallest geographic area available, but it's typically larger than the city proper.

One final adjustment: When calculating and comparing minimum-to-median wage ratios, economists typically use the median wage for all fulltime workers, rather than the median wage for all workers. On average over the past decade, fulltime workers have made about 11 percent more than workers overall. So for the purposes of calculating my ratios, I took the median wage for each city and boosted it by 11 percent.

Better Than Raising the Minimum Wage

By WARREN BUFFETT, The Wall Street Journal, May 21, 2015 7:12 p.m. ET

Help Americans who need it with a major, carefully crafted expansion of the Earned Income Tax Credit.

The American Dream promises that a combination of education, hard work and good behavior can move any citizen from humble beginnings to at least reasonable success. And for many, that promise has been fulfilled. At the extreme, we have the Forbes 400, most of whom did not come from privileged backgrounds.

Recently, however, the economic rewards flowing to people with specialized talents have grown dramatically faster than those going to equally decent men and women possessing more commonplace skills. In 1982, the first year the

Forbes 400 was compiled, those listed had a combined net worth of $93 billion. Today, the 400 possess $2.3 trillion, up 2,400% in slightly more than three decades, a period in which the median household income rose only about 180%.

Meanwhile, a huge number of their fellow citizens have been living the American Nightmare—behaving well and working hard but barely getting by. In 1982, 15% of Americans were living below the poverty level; in 2013 the proportion was nearly the same, a dismaying 14.5%. In recent decades, our country's rising tide has not lifted the boats of the poor.

No conspiracy lies behind this depressing fact: The poor are most definitely not poor because the rich are rich. Nor are the rich undeserving. Most of them have contributed brilliant innovations or managerial expertise to America's well-being. We all live far better because of Henry Ford, Steve Jobs, Sam Walton and the like.

Instead, this widening gap is an inevitable consequence of an advanced market-based economy. Think back to the agrarian America of only 200 years ago. Most jobs could then be ably performed by most people. In a world where only primitive machinery and animals were available to aid farmers, the difference in productivity between the most talented among them and those with ordinary skills was modest.

Many other jobs of that time could also be carried out by almost any willing worker. True, some laborers would outdo others in intelligence or hustle, but the market value of their output would not differ much from that of the less talented.

Visualize an overlay graphic that positioned the job requirements of that day atop the skills of the early American labor force. Those two elements of employment would have lined up reasonably well. Not today. A comparable overlay would leave much of the labor force unmatched to the universe of attractive jobs.

That mismatch is neither the fault of the market system nor the fault of the disadvantaged individuals. It is simply a consequence of an economic engine that constantly requires more high-order talents while reducing the need for commodity-like tasks.

The remedy usually proposed for this mismatch is education. Indeed, a top-notch school system available to all is hugely important. But even with the finest educational system in the world, a significant portion of the population will continue, in a nation of great abundance, to earn no more than a bare subsistence.

To see why that is true, imagine we lived in a sports-based economy. In such a marketplace, I would be a flop. You could supply me with the world's best instruction, and I could endlessly strive to improve my skills. But, alas, on the gridiron or basketball court I would never command even a minimum wage. The brutal truth is that an advanced economic system, whether it be geared to physical or mental skills, will leave a great many people behind.

In my mind, the country's economic policies should have two main objectives. First, we should wish, in our rich society, for every person who is willing to work to receive income that will provide him or her a decent lifestyle. Second, any plan to do that should not distort our market system, the key element required for growth and prosperity.

That second goal crumbles in the face of any plan to sizably increase the minimum wage. I may wish to have all jobs pay at least $15 an hour. But that minimum would almost certainly reduce employment in a major way, crushing many workers possessing only basic skills. Smaller increases, though obviously welcome, will still leave many hardworking Americans mired in poverty.

The better answer is a major and carefully crafted expansion of the Earned Income Tax Credit (EITC), which currently goes to millions of low-income workers. Payments to eligible workers diminish as their earnings increase. But there is no disincentive effect: A gain in wages always produces a gain in overall income. The process is simple: You file a tax return, and the government sends you a check.

In essence, the EITC rewards work and provides an incentive for workers to improve their skills. Equally important, it does not distort market forces, thereby maximizing employment.

The existing EITC needs much improvement. Fraud is a big problem; penalties for it should be stiffened. There should be widespread publicity that workers can receive free and convenient filing help. An annual payment is now the rule; monthly installments would make more sense, since they would discourage people from taking out loans while waiting for their refunds to come through. Dollar amounts should be increased, particularly for those earning the least.

There is no perfect system, and some people, of course, are unable or unwilling to work. But the goal of the EITC—a livable income for everyone who works—is both appropriate and achievable for a great and prosperous nation. Let's replace the American Nightmare with an American Promise: America will deliver a decent life for anyone willing to work.

Mr. Buffett is chairman and CEO of Berkshire Hathaway.

Australia Weighs Whether Its Minimum Wage Is Too High

By RACHEL PANNETT, The Wall Street Journal, Jan. 25, 2015 1:26 p.m. ET

Long a Country With High Minimum Wage and Low Unemployment, Australia Debates Slowing Pay-Floor Increases as Joblessness Rises

SYDNEY—Higher minimum-wage supporters in the U.S. often point to Australia as a low-unemployment country with one of the world's highest pay floors.

Now, joblessness in Australia is rising as growth slows, and some economists, business groups and an independent government commission are calling for a decadelong slowdown in increases to the minimum wage.

Similar discussions are playing out from the U.S. to Germany and Switzerland as policy makers wrestle with ways to address listless wage growth at a time of economic uncertainty, and amid wide disagreements over the impact of higher minimum pay.

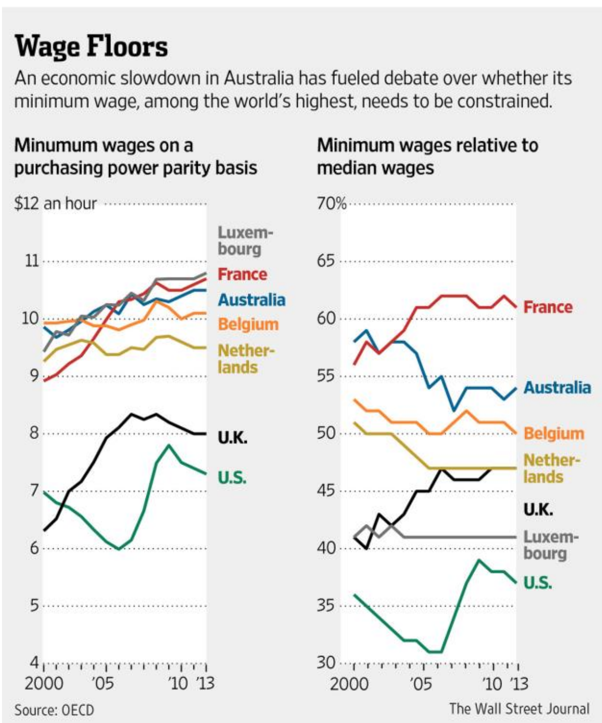
Some economists contend higher mandatory wages spur domestic spending and thus juice economic growth. Others argue high pay inhibits employers from taking on new workers, especially unskilled ones, spurring higher rates of unemployment.

Australia until now has stood out as case study of a country with a steadily rising national wage floor as well as robust hiring. The minimum wage has increased almost every year since the late 1990s, as the economy benefited from a commodities boom. At the same time, unemployment fell, and remained below 6% for more than a decade through the middle of last year.

Currently, the minimum wage for workers older than 20 is 16.87 Australian dollars ($13.55) an hour, 60% higher than what it was in 2000. That's about double the federal wage floor in the U.S. and 30% more than the country's highest, in pricey San Francisco.

That level was sustainable when Australia's economy was growing strongly. But as the nation's mining sector faces challenges, hurt by falling commodity prices, the minimum wage is looking too high, argues Ross Garnaut, an economic adviser to Australia's government in the 1980s—a period when minimum pay adjusted for inflation fell.

"This has not been a large problem through the boom," Mr. Garnaut said. "But it will be more and more important in the harder times ahead, because high minimum wages inhibit growth in jobs for workers on the edge of the labor force."



Today there are fewer jobs in mining and construction. Unemployment, at 6.1%, has risen steadily from a low of 4% in early 2008.

Proponents of keeping a high minimum wage say Australia's recent experience has overturned theories that high pay leads to more unemployment. Ian Harper, an economist who led the nation's wage-setting body from 2005 to 2009, says there are other factors at play, including general business conditions. He points to a period in the 1990s when wages adjusted for inflation fell yet unemployment rose above 10%.

Youth unemployment in Australia, defined as people 15 to 24 years old who aren't working or attending school, surged to 14.5% in November—the highest since 2001—before falling to 13.1% in December. But workers up to 21 are often paid much less under a sliding scale of minimum salaries significantly lower than the adult pay floor.

Damien Oliver and John Buchanan, labor researchers at the University of Sydney, argued in a recent paper that Greece, Spain and Ireland have high unemployment despite low minimum wages.

Others say Australian pay is part of the fabric of an egalitarian culture in which an independent commission weighs where to peg the minimum wage every year.

Australia's wage floor in 2013 was 54% of the median wage, versus 37% in the U.S., according to the Organization for Economic Cooperation and Development.

Slowing down minimum-wage increases "is a recipe straight out of the U.S.," said Ged Kearney, president of the Australian Council of Trade Unions, a lobby group representing about two million workers.

The debate over wage floors is particularly lively in the U.S., where Republicans in Congress have rejected President

Barack Obama's push to raise the federal minimum wage to $10.10 from the current $7.25. But 14 states moved ahead on their own increases last year, including four GOP-led states where voters approved the step by popular vote. Among top Republicans now joining the push is 2012 presidential nominee Mitt Romney.

In Germany, lawmakers recently adopted the country's first national minimum wage. The move marked a victory for the Social Democratic Party, the junior partner in Chancellor Angela Merkel's ruling coalition, and its allies in the trade-union movement. Some economists and business groups say it could lead to job losses, especially in former East Germany, where economic conditions are weaker. Deutsche Bank warned that up to a million jobs could be at risk.

Swiss voters, in a referendum last year, rejected a move to bring in the country's first-ever minimum wage of 22 Swiss francs ($25) an hour, the highest in the world.

Last year, an independent government commission set up by Australia's center-right Liberal-National coalition government advised the minimum wage should grow by one percentage point below inflation for a decade, instead of exceeding the rate of inflation, as it has for years.

The government hasn't endorsed the proposal. Union representatives have vowed to fight any freeze.

All You Need to Know About Income Inequality, in One Comparison

The New York Times, MARCH 13, 2015, Justin Wolfers

The Wall Street bonus pool for last year is roughly double the total earnings of all Americans who work full time at the federal minimum wage.

That claim, which comes from a new report from Sarah Anderson of the Institute for Policy Studies, is one of the more striking sound bites I have heard in quite some time. And so I thought it worth digging in to the data to see if it checks out. Short answer: It does, although given the uncertainty in these sorts of calculations, the precise ratio could easily be a bit higher or lower.

Let's start with the Wall Street bonuses. The New York State Comptroller reported on Wednesday that the size of the bonus pool paid to securities industries employees in New York City was $28.5 billion. Dividing this total among 167,800 workers yields an average bonus of $172,860, which seems plausible enough. For sure, some received much, much bigger bonuses, and many received nothing.

What about the total earnings of full-time workers at the federal minimum wage? The Bureau of Labor Statistics reports that there are 1.03 million full-time workers paid an hourly wage of $7.25 or less. These people tend to work around 40 hours a week on average. If they all earn $7.25 per hour and work 50 weeks per year, the total earnings of this group come to nearly $15 billion. Ms. Anderson, whose report usefully shows all her work, prefers an estimate of 37 hours per week — which looks too low to me based on other data — and 52 weeks per year, so after rounding, she gets to a total of $14 billion.

Rather than quibble over which number is correct, it makes more sense to highlight the more important uncertainties surrounding any estimate. The count of workers at federal minimum wage includes only those who are paid hourly, and so omits those paid weekly or monthly. On the flip side, the B.L.S. count is based on income before tips and commissions, and so may overstate the number of people with low hourly earnings. And while my calculation assumed that all minimum wage workers earn $7.25 per hour, in fact many earn less than this, including wait staff and others who rely on tips, some students and young workers, certain farmworkers, and those whose bosses simply flout the minimum wage law.

For all of these uncertainties, the broad picture doesn't change. My judgment is that we can be pretty confident that Ms. Anderson's estimate that the sum of Wall Street bonuses is roughly twice the total amount paid to all full-time workers paid minimum wage seems like a fair characterization.

Justin Wolfers is a senior fellow at the Peterson Institute for International Economics and professor of economics and public policy at the University of Michigan. Follow him on Twitter at @justinwolfers.