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Ford: Pay Workers Well!

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As President Bush and the Congress prepare to debate an increase in the federal minimum wage, they could learn much from the economic wisdom of one of America's most successful business leaders—Henry Ford.

Ford was, among other things, a famously domineering employer and a supporter of fascists, but he was also an economic pioneer. He not only perfected the techniques of mass assembly of automobiles, but he also foresaw that his efforts would not amount to great profits if average Americans could not afford to buy all those cars. He saw that putting higher wages in his workers' pockets was good for his own bottom line, and good for the national economy, too.

So Ford shocked the world in 1914 when he unilaterally introduced his own minimum wage for his employees, more than doubling the average wage in the auto industry by raising it from \$2.34 per day to \$5 per day. As Ford put it, raising wages "has the same effect as throwing a stone in a still pond" by creating an "ever-widening circle of buying" that increases everyone's prosperity.

It was a simple formula that the U.S. has utilized many times since: adequate wages create happier consumers, who contribute to a humming economy. Thus was born the American middle class.

This lesson should inform the minimum wage debate. Recent proposals call for increasing the current federal minimum wage of \$5.15 an hour—the lowest minimum wage in inflation-adjusted dollars in more than 50 years—to \$7.25 an hour. According to the Economic Policy Institute, an estimated 14.9 million American workers would benefit from an increase in the federal minimum wage—6.6 million who currently earn less than \$7.25 an hour, and 8.3 million who are likely to receive raises due to the spillover effect of a minimum wage increase. Over half of these workers work full-time, and another third work between 20 and 34 hours per week.

Assuming a minimum wage increase raises earnings for those employees by an average of one dollar per working hour each year, we're talking about a net increase in purchasing power of well over \$15 billion annually being pumped into the economy. Those are the kinds of numbers Henry Ford understood.

In other words, raising the minimum wage will positively impact the entire American economy, not just low-wage earners. From a macroeconomic point of view, if low wage workers have more money to buy things, then businesses selling their products and services will have more customers. And more customers will mean greater sales, higher profit and a "trickle up" effect that creates a more robust economy.

But President Bush and Democratic congressional leaders don't seem to grasp the wisdom of Fordism. Typically, the debate over a minimum wage increase follows predictable lines pitting the poor against the middle class, a useless and no-win battle.

Democratic proponents usually focus on the impact of a wage increase on low-wage workers living

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below the poverty level. They will tell harrowing stories of minimum wage workers trying to live on a measly \$5.15 an hour.

Republicans and business leaders will counter that the minimum wage increase will lead to fewer entry-level and low-skilled jobs, and also to higher prices for goods and services as the cost of the wage increase is passed along to the price of a hamburger at McDonalds. They will paint support for a minimum wage increase as yet another example of Democrats trying to help the undeserving poor at the expense of middle-class consumers.

Yet a broad swath of the middle class can easily understand how giving low-wage workers more money in their pockets will result in a lot more money being pumped into the economy. Moreover, the Republicans can't dispute this impact of a minimum wage increase because it is precisely this "trickle up" phenomenon they have pointed to for the past several years to justify the Bush administration's massive tax cuts.

So when the debate gets fired up this January, let's hope the president and congressional leaders, Republicans and Democrats alike, remember the economic lesson of Henry Ford. An increase in the minimum wage will be good for the national economy, including most businesses, the middle class and workers at the bottom of the economic ladder. And that makes it an idea that all sides ought to endorse.